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Notes to the Financial Statements

June 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

B. Reporting Entity

For financial reporting purposes, the Commonwealth's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable (blended component units), and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete (discrete component units). The funds and account groups of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included.

Section 2100 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification) describes the criteria for determining which organizations, functions, and activities should be considered part of the Commonwealth of Virginia (the "Commonwealth") for financial reporting purposes. The basic criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Commonwealth to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Commonwealth.

(1) Primary Government – A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, and departments are, for financial reporting purposes, part of the primary government.

(2) Blended Component Units – Though legally separate entities, these component units are, in substance, part of the primary government's operations. The blended component unit serves or benefits the primary government almost exclusively. Financial information from these units is combined with that of the primary government. Blended component units are:

Pocahontas Parkway Association (Enterprise Funds) – The Association, a private, non-stock, nonprofit corporation was created to develop, construct, and provide financing for the Route 895 Connector Project. The Association is a blended component unit of the Department of Transportation (Primary Government) because it is fiscally dependent on the primary government and provides services entirely to the benefit of the Commonwealth. Ernst & Young, LLP audited the Association, and a separate report is available from the Association, Post Office Box 1320, Richmond, Virginia 23218.

Virginia Historic Preservation Foundation (Enterprise Funds) – The Foundation was created as a body politic and corporate to serve the Department of Historic Resources (Primary Government) by acquiring and holding properties of historical significance. The seven-member Board is appointed by the Governor, and the primary government is able to impose its will on the Foundation. The Director of the Department of Historic Resources is the Executive Director and controls all administrative duties of the Foundation. The administrative offices of the Foundation are located at 10 Courthouse Avenue, Petersburg, Virginia 23803. The Auditor of Public Accounts audits the Foundation as part of the Department of Historic Resources and discloses its existence in that report.

Virginia State Parks Foundation (Enterprise Funds) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) in the duties and responsibilities described in Subtitle I of Title 10.1 of the *Code of Virginia*. The seven-member Board is appointed by the Governor, and the primary government is able to impose its will on the Foundation. The administrative offices of the Foundation are located at 203 Governor Street, Suite 402, Richmond, Virginia 23219. The Auditor of Public Accounts audits the Foundation as part of the Department of Conservation and Recreation and discloses its existence in that report.

Virginia Public Building Authority (VPBA) (Governmental Funds) – The Authority was created as a body politic and corporate and is fiscally independent. A government instrumentality, the Authority finances the acquisition and construction of buildings for the use of the Commonwealth and other approved purposes. The seven-member Board is appointed by the Governor, and the primary government is able to impose its will on the

Authority. The Auditor of Public Accounts audited the Authority, and a separate report is available from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

- (3) **Discrete Component Units** – Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discrete component units serve or benefit those outside of the primary government. Discretely presented component units are:

Higher Education Institutions (Higher Education Fund) – The Commonwealth's higher education institutions are granted broad corporate powers by State statutes. The Governor appoints the members of each institution's Board of Trustees. In addition to the annual appropriations to support the institutions' operations, the State provides funding for, and construction of, major academic plant facilities for the institutions. Therefore, there is a financial benefit/burden to the primary government. The bonds issued to finance the construction of these facilities are obligations of the state. The Higher Education Institutions are: Christopher Newport University, the College of William & Mary, George Mason University, James Madison University, Longwood College, Mary Washington College, Norfolk State University, Old Dominion University, Radford University, Richard Bland College, University of Virginia, the University of Virginia's College at Wise (formerly reported as Clinch Valley College), Virginia Community College System, Virginia Commonwealth University, Virginia Military Institute, Virginia Polytechnic Institute and State University, Virginia State University, and the Virginia Institute of Marine Science. Also included are the Southwest Virginia Higher Education Center, Roanoke Higher Education Authority, and the University of Virginia Hospital. The colleges and universities are funded through State appropriations, tuition, Federal grants, and private donations and grants. The Auditor of Public Accounts audited the colleges and universities, and individual reports are issued under separate cover.

Complete financial statements for each institution may be obtained from their respective administrative offices. The addresses for these institutions may be obtained from the Virginia Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219.

Innovative Technology Authority (ITA) (Higher Education Fund) – The Authority is granted corporate powers by the *Code of Virginia*. The Authority serves to facilitate the marketing, organization, and development of scientific research and technology by the State's institutions of higher education and private industry in the Commonwealth. The Governor appoints 12 of the 15 Board members, and there is a financial benefit/burden to the primary government. The Authority's combined financial statements include the accounts of the Center for Innovative Technology (CIT) after elimination of all significant intercompany balances and transactions. CIT is a nonstock, not-for-profit corporation, which acts as the operating arm of the Authority. The address for the administrative offices of the Authority is CIT Building, Suite 600, 2114 Rock Hill Road, Herndon, Virginia 22070. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Virginia College Building Authority (VCBA) (Higher Education Fund) – The Authority was created as a public body corporate, a political subdivision, and an agency and instrumentality of the Commonwealth. The Governor appoints a majority of the Board and members serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. The Authority finances certain capital projects and equipment purchases of state-supported colleges and universities. The Auditor of Public Accounts audited the Authority, and a separate report is available from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Only the activity of the Authority that relates to the financing of capital projects and equipment purchases by State-supported colleges and universities is included in the financial statements. The Authority assists private institutions of higher education in the financing and refinancing of a broad range of facilities. The Authority is authorized to issue obligations and lend the proceeds to private institutions; however, such financings or refinancings are not obligations of the Commonwealth nor the Authority, but are payable solely from the revenues pledged by the respective private institution. This indebtedness, totaling \$252.3 million, is not included in the financial statements.

Other Discrete Component Units

Virginia Economic Development Partnership (VEDP) (Governmental Funds) – The Partnership was created as a corporate body and operates to encourage, stimulate, and support the development and expansion of commerce in the Commonwealth. The Governor appoints the 15 Board members, and there is a financial benefit/burden to the

primary government. The administrative offices are located at 901 E. Byrd Street, Richmond, Virginia 23218. The Auditor of Public Accounts audited the Partnership, and a separate report is available.

Virginia Outdoors Foundation (Governmental Funds) – The Foundation was created as a body politic and corporate to serve the Department of Conservation and Recreation (Primary Government) by promoting preservation and raising funds for the purchase of preservation land. The seven-member Board is appointed by the Governor. The Foundation was reported as a Related Organization in previous years, but it is now a Component Unit because the primary government can impose its will on the Foundation. The Foundation is reported as a Discrete Governmental Component Unit because it uses a GAAP reporting model other than the governmental model. The administrative offices of the Foundation are located at 203 Governor Street, Suite 317, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Foundation, and a separate report is available.

Virginia Port Authority (VPA) (Governmental and Proprietary Funds) – The Authority was established as a corporate body and operates to serve the citizens and promote commerce. The Governor appoints 11 of the 12 Board members, and the primary government is able to impose its will on the Authority. There is also a financial benefit/burden to the primary government. The administrative offices of the Authority are located at 600 World Trade Center, Norfolk, Virginia 23510. The Auditor of Public Accounts audited the Authority, and a separate report is available.

A. L. Philpott Manufacturing Extension Partnership (Proprietary Funds) – The Partnership has the mission to foster regional economic prosperity by helping small to mid-sized manufacturers recognize and achieve their full market potential. The Partnership provides regional manufacturing firms with technology consulting services, access to business modernization resources, and support for interfirm collaboration. Further, the Partnership provides direct assistance to increase sales, decrease costs, and improve quality, productivity, and competitiveness. The Partnership has a 17-member Board of Trustees. The Board consists of the presidents of two public four-year institutions of higher education and one private four-year institution of higher education; three community college presidents; the director of Virginia's Center for Innovative Technology; Virginia's Secretary of Commerce and Trade; and nine citizen members appointed by the Governor. There is also a financial benefit/burden to the primary government. The administrative office is located at Patrick Henry Community College,

P. O. Box 5311, Martinsville, Virginia 24115. The Auditor of Public Accounts audited the Partnership, and a separate report is available.

Virginia Resources Authority (VRA) (Proprietary Funds) – The Authority was created as a public body corporate, and operates as a political subdivision of the Commonwealth to provide financing for the construction of local water supply and wastewater treatment facilities. The Governor appoints a majority of the 10-member Board and the Executive Director of the Authority. The primary government is able to impose its will on the Authority, and there is a financial benefit/burden to the primary government. The Commonwealth does not guarantee any bonds issued by the Virginia Resources Authority. The administrative offices of the Authority are located at 700 Mutual Building, Post Office Box 1300, Richmond, Virginia 23218. Deloitte & Touche, LLP audited the Authority, and a separate report is available.

Small Business Financing Authority (SBFA) (Proprietary Funds) – The Virginia Small Business Financing Act of 1984 (Chapter 28, Title 9, *Code of Virginia*) established the Authority as a public body corporate and a political subdivision of the Commonwealth. The Governor appoints the 10 Board members, and the primary government is able to impose its will on the Authority. The Authority was created to assist small businesses in the Commonwealth in obtaining financing for new businesses or the expansion of existing businesses. The Authority can provide financial assistance to small businesses by providing loans, guarantees, insurance, and other assistance, thereby encouraging the investment of private capital in small businesses in the Commonwealth. Also, the Authority guarantees loans made to small businesses by banks. As of June 30, 1999, the Authority had outstanding loan guarantees totaling \$636,280 and had set aside \$900,000 of its total net assets of \$1,050,045 in a guaranty reserve fund to support these guarantees. The administrative offices of the Authority are located at 707 East Main Street, Suite 300, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Virginia Equine Center Foundation (Proprietary Funds) – The Foundation was created as a body politic and corporate, and operates the Equine Center for the benefit of the equine industry. In 1992, the Commonwealth began making payments on the Equine Center Foundation debt to keep the Center from falling into default. The Governor appoints 10 of the 11 Board members, and there is a financial benefit/burden to the primary government. The address for the administrative offices of the Foundation is Post Office Box 1051, Lexington, Virginia 24450. The Foundation was audited by

the accounting firm of William White, Sr., and a separate report is available.

Virginia Housing Development Authority (VHDA) (Proprietary Funds) – The Authority was created as a political subdivision and instrumentality of the Commonwealth and is granted both political and corporate powers by the *Code of Virginia*. The Governor appoints a majority of the Authority's Board members. The Commonwealth may make grants to the Authority including, but not limited to, reserve funds which is a potential financial benefit/burden to the primary government. The State is not obligated by the debt of the Authority. The Authority was created in the public interest to provide investment and stimulate construction of low-moderate income housing which benefits the citizens of the Commonwealth. The administrative offices of the Authority are located at 601 South Belvidere Street, Richmond, Virginia 23220. KPMG Peat Marwick audited the Authority, and a separate report is available.

Virginia Public School Authority (VPSA) (Proprietary Funds) – The Authority was created as a public body corporate, and an agency and instrumentality of the Commonwealth to finance capital projects of city and county school boards. The Governor appoints the Board members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Authority. Additionally, the Authority receives Literary Fund notes transferred from the State to secure bonds issued by the Authority. The Auditor of Public Accounts audited the Authority, and a separate report is available from the Department of the Treasury, Post Office Box 1879, Richmond, Virginia 23218.

Hampton Roads Sanitation District Commission (Proprietary Funds) – The District was established as a political subdivision of the Commonwealth and a government instrumentality. The Commission, which is the governing Board of the District, was granted corporate powers by the *Code of Virginia*. The Governor appoints the Commission members, who serve at his pleasure. Therefore, the primary government is able to impose its will on the Commission. The Commonwealth is not obligated by the debt of the Commission. The Commission was established to benefit the inhabitants of the District and operates a sewage system for 13 localities in the Chesapeake Bay area. The address for the administrative offices of the Commission is Post Office Box 5911, Virginia Beach, Virginia 23471. Pricewaterhouse-Coopers audited the Commission, and a separate report is available.

State Education Assistance Authority (SEAA) (Proprietary Funds) – The Authority was created by the *Code of Virginia* and

granted corporate powers. The Governor appointed the governing Board and Executive Director of the Authority. Therefore, the primary government was able to impose its will on the Authority. The Authority facilitated the education of Commonwealth residents by guaranteeing student loans provided by financial institutions through a program administered by the Federal government until July 1, 1996. At that time, the Authority terminated its guarantee agreements with the U.S. Department of Education, and closed the program to new borrowers. The current activity relates solely to loan servicing for outstanding loans.

Virginia Biotechnology Research Park Authority (Proprietary Funds) – The Authority is a legally separate, political subdivision of the Commonwealth created by the General Assembly to assist in the development of a biotechnology research park. The Governor and General Assembly appoint the Board members of the Authority, and there is a potential financial benefit/burden to the primary government. The administrative offices of the Authority are located at 800 East Leigh Street, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Authority, and a separate report is available.

Medical College of Virginia Hospitals Authority (MCVA) (Proprietary Funds) – The Authority was created by the *Code of Virginia* and granted corporate powers. The Governor and General Assembly appoint nine of the 16 Board members, and there is a potential financial benefit/burden to the primary government. The Authority was established to operate the Medical College of Virginia Hospitals, which had previously been combined with the Virginia Commonwealth University (Higher Education Fund). The University transferred all assets and liabilities of the Hospitals, except real estate, to the Authority on June 30, 1997. The administrative offices are located at 401 North 12th Street, 2nd Floor, Suite 2-300, Richmond, Virginia 23219. Ernst & Young, LLP audited the Authority, and a separate report is available.

Wireless E-911 Service Board (Proprietary Funds) – The Board was created as a body politic and corporate and a political subdivision to establish wireless E-911 service in Virginia. The seven-member Board is appointed by the Governor, and the primary government is able to impose its will on the Board. The administrative offices of the Board are located at the Virginia Department of Accounts, 101 North 14th Street, Richmond, Virginia 23219. The Auditor of Public Accounts audited the Board and a separate report is available.

- (4) **Related Organizations** – Organizations for which a primary government is accountable because that government appoints a majority

of the Board, but is not financially accountable, are related organizations. Related organizations are:

Virginia Recreational Facilities Authority –

The Authority was created as a political subdivision and instrumentality of the Commonwealth and given separate corporate powers by the *Code of Virginia*. The Governor appoints the 13 Board members. The Authority operates educational programs, tourism, and commerce in the Roanoke Valley. During the fiscal year ended June 30, 1999, the Authority received a \$750,000 payment from the Commonwealth. The address for the administrative offices of the Authority is Post Office Box 8508, Roanoke, Virginia 24014. Foti, Flynn, Lowen and Company audited the Authority, and a separate report is available.

Allegheny-Highlands Economic Development Authority –

The Authority was created as a body corporate and politic, and as a political subdivision of the Commonwealth by the General Assembly. The Governor appoints a majority of the seven-member Board. The Authority was created for the benefit of the citizens of the Commonwealth, particularly those in Allegheny County, Clifton Forge, and Covington, by improving commerce, health and welfare. The address for the administrative offices of the Authority is Post Office Box 29, Covington, Virginia 24426. Persinger and Company audited the Authority, and a separate report is available.

Miller School of Albemarle – The School was created as an educational institution of the Commonwealth and a corporation to provide a quality education. The Governor appoints a majority of the nine-member Board. The administrative offices of the School are located at 1000 Samuel Miller Loop, Charlottesville, Virginia 22903-9328. Hantzmon, Wieble and Company audited the School, and a separate report is available.

Jamestown-Yorktown Educational Trust –

The Trust was created as a nonprofit corporation by the *Code of Virginia* to assist the Jamestown-Yorktown Foundation (Foundation). The Foundation's Board of Trustees controls the Trust. Several Commonwealth officials serve as ex-officio members of the Board, and the Governor appoints twelve members. The Trust operates the Jamestown Settlement and Yorktown Victory Centers' gift shops and café, oversees investing and fund raising activities, purchases artifacts, and sponsors events. The address for the administrative offices of the Trust is Post Office Box 3605, Williamsburg, Virginia 23187. Eggleston Smith P.C. audited the Trust, and a separate report is available.

Virginia Birth-Related Neurological Injury Compensation Program –

The Program was

created to provide a no-fault alternative for birth-related neurological injuries. The seven-member Board is appointed by the Governor. The administrative offices of the Program are located at 7400 Beaufont Springs Drive, Richmond, Virginia 23225. Goodman and Company audited the Program, and a separate report is available.

C. Fund Structure

The accompanying financial statements are presented in four classifications of funds and two account groups. The fund classifications include governmental funds, proprietary funds, fiduciary funds, and the Higher Education Fund (Component Unit). Account groups are presented for general fixed assets and general long-term debt. The fund classifications and a description of each existing fund type and account group follow:

(1) Governmental Funds

Transactions related to the acquisition, use, and balances of the government's expendable financial resources received and used for those services traditionally provided by a State government, which are not accounted for in other funds, are accounted for in governmental funds. The governmental fund measurement focus is based upon determination of financial position (sources, uses, and balances of financial resources), rather than on net income determination. Governmental funds include:

- a. **General Fund –** Accounts for transactions related to resources received and used for those services traditionally provided by a State government, which are not accounted for in any other fund. These services include general government, legislative, public safety, judicial, health and mental health, resources and economic development, licensing and regulation, and primary and secondary education.
- b. **Special Revenue Funds –** Account for transactions related to resources received and used for restricted or specific purposes. The Special Revenue Funds include transactions related to resources used in support of public health services, social service programs, agriculture, State park services, highway maintenance and construction, and other transportation purposes.
- c. **Debt Service Funds –** Account for transactions related to resources retained and used for the payment of interest and principal on those long-term obligations recorded in the General Long-Term Debt Account Group.
- d. **Capital Projects Funds –** Account for transactions related to resources received

and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental or proprietary funds. The primary resource for these funds is the proceeds of bond issues. Principal uses are for construction and improvement of State office buildings, correctional and mental health facilities, and parks.

(2) Proprietary Funds

Transactions related to commercial activities operated by the Commonwealth are accounted for in the proprietary funds. Proprietary funds differ from governmental funds in that their focus is on income measurement, which, together with the maintenance of equity, is an important financial indicator.

The activities comprising the proprietary funds include the following:

- a. **Enterprise Funds** – Account for transactions related to resources received and used for financing self-supporting activities of the Commonwealth that offer products and services on a user-charge basis to the general public.
- b. **Internal Service Funds** – Account for transactions related to the financing and sale of goods or services provided by agencies of the Commonwealth to other agencies and institutions of the Commonwealth. The goods and services furnished are charged to the recipient agency or institution to recover costs through user charges.

(3) Fiduciary Funds

Transactions related to assets held in a trust or agency capacity by the Commonwealth are accounted for in fiduciary funds. The Commonwealth's fiduciary funds include the following:

- a. **Pension Trust Funds** – Account for the transactions of Commonwealth administered retirement systems and post-employment benefits (see Notes 12 and 13, respectively).
- b. **Investment Trust Funds** – Account for the external portions of the State Non-Arbitrage Program and Local Government Investment Pools that are sponsored by the Commonwealth.
- c. **Nonexpendable Trust Fund** – Accounts for the transactions of the Commonwealth Health Research Fund whose principal must be maintained intact and whose income is used to fund grants for human health research benefiting the Commonwealth's citizens.

- d. **Expendable Trust Fund** – Accounts for the transactions of trusts whose principal and income may be used for the purposes of the trust. These trusts include those for educational programs at museums, funds for unemployment benefits, and unclaimed property receipts.

- e. **Agency Funds** – Account for amounts held in trust by the Commonwealth for others. Agency funds include those funds established to account for the collection of taxes and fees for distribution to localities and other states, employee benefits, deposits of insurance carriers, child support collections and other miscellaneous accounts.

(4) Account Groups

Account groups are used to establish accounting control over the Commonwealth's general fixed assets, the unmatured principal of its general long-term debt, and other long-term obligations of governmental funds. General fixed assets do not represent financial resources available for appropriation and expenditure, nor does the unmatured principal of general long-term debt and other long-term obligations require current appropriation and expenditure of governmental fund financial resources.

- a. **General Fixed Assets Account Group** – Accounts for fixed assets of the governmental fund types. Fixed assets of the proprietary funds, trust funds, and discrete component units are accounted for in their respective funds.
- b. **General Long-Term Debt Account Group** – Accounts for obligations that are not recorded as current liabilities in governmental funds. These obligations include unmatured and unredeemed long-term general obligation bonds payable, obligations for accrued employee sick and vacation leave, pension liability, and capital lease obligations, which are backed by the full faith and credit of the Commonwealth. Also included are obligations of the Virginia Public Building Authority (Primary Government) that are not backed by the Commonwealth, but are included in the Commonwealth's reporting entity. Unmatured long-term debt relating to obligations of the proprietary funds and similar trust funds and the discrete component units is accounted for within the respective funds.

(5) Higher Education Fund (Component Unit)

The Higher Education Fund accounts for transactions related to resources received and used for the operation of the Commonwealth's

institutions of higher education and related medical teaching hospitals. The Higher Education Fund is an aggregation of the following funds:

- a. **Current Funds** – Account for resources that will be expended for operating purposes. Funds over which the governing Boards retain full control are accounted for as current unrestricted. Current restricted funds may be utilized only in accordance with externally-restricted purposes.
- b. **Loan, Endowment, and Agency Funds** – Account for assets held in a fiduciary capacity.
- c. **Plant Funds** – Account for assets that have been or will be invested in property, plant, and equipment, and assets that are reserved to retire debt issued to finance plant facilities.

D. Basis of Accounting for Funds

Governmental Fund Types, Expendable Trust Fund, and Agency Funds – The accounts of the General, Special Revenue, Debt Service, Capital Projects, and Expendable Trust Funds use a current financial resources measurement focus and are presented on a modified accrual basis of accounting. Under this basis, revenues and other financial resources are recognized in the accounting period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. Material revenues subject to accrual include Federal grants and income and sales taxes. Expenditures and other uses of financial resources are recognized when the related fund liability is incurred, except for items that are not planned to be liquidated with expendable available resources, such as the long-term portion of the liability for compensated absences and capital lease obligations. Agency Funds are also accounted for on a modified accrual basis, but do not recognize revenues and expenditures. Agency Funds account for assets received and disbursed by a government in its capacity as an agent for individuals, businesses, or other governments.

Proprietary Fund Types, Pension, Investment and Nonexpendable Trust Funds – The accounts of these funds use a flow of economic resources measurement focus and are presented on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the liability is incurred. All assets and liabilities associated with the operations of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases and decreases in net total assets.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other*

Governmental Entities That Use Proprietary Fund Accounting, provides governments two options for reporting their proprietary fund activities (including component units accounted for using proprietary fund accounting). All Proprietary funds reported herein, with the exception of the Medical College of Virginia Hospitals Authority (MCVHA) (Component Unit), the A. L. Philpott Manufacturing Extension Partnership (Component Unit), and the Virginia Equine Center Foundation (Component Unit), apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. MCVHA, the A. L. Philpott Manufacturing Extension Partnership, and the Virginia Equine Center Foundation apply all of these pronouncements, and also apply all FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Higher Education Fund (Component Unit) – The accounts of this fund are presented on an accrual basis with the exception of the following:

- (1) Depreciation expense is not recorded on plant fund assets, and
- (2) Revenues and expenditures of an academic term that is conducted over a fiscal year end are reported totally in the fiscal year in which the program is predominantly conducted.

E. Budgetary Process

Budgetary amounts shown in the financial statements represent the total of the original budgeted amounts and all supplemental appropriations. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. Unexpended appropriations at the end of the fiscal year generally lapse. However, they may be reappropriated for expenditure in the following fiscal year. The Governor, as required by the *Code of Virginia*, submits a budget composed of all proposed expenditures for the State, and of estimated revenues and borrowing for a biennium, to the General Assembly. Budgets are adopted for the General and Special Revenue Funds, except for the Literary and Virginia Public Building Authority Funds – Special Revenue Fund. Formal budgetary integration is not employed for the Capital Projects, Debt Service Funds, and the Literary and Virginia Public Building Authority Funds – Special Revenue Fund because effective budgetary control is alternatively achieved through the General Fund and the remaining Special Revenue Funds.

The budget is prepared on a biennial basis; however, the budgets of the General and Special Revenue Funds contain separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by

the Governor. For management control purposes, the budget is controlled at the program level. The Governor may transfer an appropriation within a State agency or from one State agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

Appropriations for programs funded from Special Revenue Funds may allow expenditures in excess of the original appropriations to the extent that revenues of the funds exceed original budget estimates and such additional expenditures are approved by the Governor through supplemental appropriations.

F. Cash Equivalents and Investments

Cash Equivalents

Cash equivalents are investments with an original maturity of three months or less.

Investment Bases

Investments are principally comprised of monies held by proprietary fund component units, endowment funds of higher education institutions (discrete component unit), Pension Trust Funds, and monies held by the State Treasurer in both the general account and other fiduciary accounts.

Governmental and proprietary funds, both primary government and component units, report investments in money market and in the Commonwealth sponsored investment pools at amortized cost. All other investments are reported at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Investments administered by the Virginia Retirement System (VRS) are reported at fair value. The cost of investments sold is the average cost of the aggregate holding of the specific investment sold. Investments in affiliated organizations are accounted for on the equity method of accounting and VRS' share of their earnings (losses) for the period is included in investment income using the equity method.

Investments of higher education institutions reflected in the Higher Education Fund (Component Unit) are reported at fair value, except for money market investments and investments in the Commonwealth sponsored investment pools, which are reported at amortized cost.

Derivatives

Derivative instruments are used to improve return on investments and modify risk exposures (see Note 6).

G. Receivables

Receivables in the governmental funds consist primarily of the accrual of taxes, as well as Federal revenue and receivables of the State's Medicaid program. Receivables of Trust and Agency Funds are primarily the accrual of member and employer contributions in the Pension Trust Funds and the accrual of local sales taxes in the Agency Funds. Receivables in the Proprietary Funds consist primarily of mortgage receivables and loans receivable. Receivables are recorded net of allowances for doubtful accounts (see Note 7).

H. Interfund Loans

Loans Receivable represent working capital advances from one fund to another (see Note 8).

I. Inventories

Materials and Supplies

Inventories of materials and supplies are reported as expenditures when consumed. These assets are offset by a fund balance reserve that indicates they are not available for spending. Inventories of the General, the Special Revenue, and the Expendable Trust Funds are maintained at cost using the first-in, first-out (FIFO) methodology, except for the following:

- Virginia School for the Deaf and the Blind at Staunton (VSDBS)
- Virginia Department of Transportation (VDOT)
- Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS)
- Virginia Employment Commission (VEC)
- Woodrow Wilson Rehabilitation Center (WWRC)
- Department of Conservation and Recreation (DCR)
- Department of State Police (VSP)
- Department of Health (VDH)
- Department of Personnel and Training (DPT)
- Department for the Visually Handicapped (DVH)
- Virginia Workers' Compensation Commission (VWC)

VSDBS inventories are recorded in the General Fund using the last-in, first-out (LIFO) methodology. VDOT inventories are recorded in the Commonwealth Transportation Fund and DMHMRSAS inventories are recorded in the General, Other Special Revenue, and Federal Trust Funds and are maintained based on the weighted average cost methodology. VEC inventories are recorded in the Federal Trust Fund, WWRC and DCR inventories are recorded in the Other Special Revenue Fund, VSP inventories are recorded in the General and Other Special Revenue Funds, and the VDH inventories are recorded in the General, Other Special Revenue, and Federal Trust Funds and are maintained based on the average cost

methodology. DPT inventories are recorded in the General Fund, DVH inventories are reported in the Other Special Revenue Fund, and VWC inventories are recorded in the Dedicated Special Revenue Fund and are maintained on the lower of cost or market methodology.

Inventories maintained by the Internal Service Funds, the Virginia Museum of Fine Arts (Enterprise Fund), the Science Museum of Virginia (Enterprise Fund), the Consolidated Laboratory (Enterprise Fund), the Medical College of Virginia Hospitals Authority (Component Unit), and the Virginia Equine Center Foundation (Component Unit) are stated at the lower of cost or market using FIFO. Institutions of higher education (component units) use several methods for inventory valuations, including cost using FIFO, the lower of cost or market using FIFO, or weighted average methods.

The Department of Alcoholic Beverage Control (Enterprise Fund) maintains inventories at the lower of average cost or market. The Virginia Industries for the Blind (Enterprise Fund) maintain inventories using a weighted average cost methodology. Inventories maintained by the Virginia Port Authority (Component Unit) are reported using the moving average cost methodology. The Virginia Housing Development Authority (Component Unit) maintains inventories at the lower of cost or fair value. The State Lottery Department's (Enterprise Fund) inventory consists of unsold instant tickets that are valued at cost and expensed over the life of each game as it is sold to retailers.

Food Stamps

In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, the Commonwealth recognizes food stamp distributions as revenue and expenditures in the Federal Trust Fund. Revenue and expenditures are recognized when benefits are distributed. Food stamps held at June 30 totaling \$65.8 million are reported as inventory and are offset by deferred revenue.

J. Prepaid Items

Prepaid expenses for rent, insurance, and similar items reported in governmental funds are recognized when purchased.

K. Other Assets

Other Assets include those balances of a miscellaneous nature that are not specifically classified elsewhere (see Note 10).

L. Property, Plant, and Equipment

Fixed assets of governmental funds are recorded as expenditures at the time of purchase and capitalized in the General Fixed Assets Account Group. For financial reporting purposes, depreciation is not recorded on general fixed assets. Fixed assets of the proprietary funds are capitalized in the fund in which they are utilized and

depreciated on the straight-line basis over their useful lives. Fixed assets of colleges and universities are capitalized in the Higher Education Fund (Component Unit). Depreciation is not provided on these assets (see Note 11).

Fixed assets are stated at historical cost or, in some instances, estimated historical cost. Donated fixed assets are stated at fair market value at the time of donation. The Commonwealth capitalizes all property, plant, and equipment that have a cost or value greater than \$5,000 and an expected useful life of greater than two years. Selected agencies and institutions of higher education utilize a capitalization limit lower than \$5,000 for various reasons. Accordingly, reported fixed assets may include some items that cost less than \$5,000. Infrastructures, including highways, bridges, and rights-of-way, are not capitalized.

The Commonwealth capitalizes construction-in-progress when project expenditures exceed \$5,000. Expenditures are classified as construction-in-progress if:

- (1) they extend the asset life, improve productivity, or improve the quality of service; and
- (2) they fall into the planning, acquisition, construction, improvement, renovation, repair, replacement, relocation or demolition phase of the asset life.

The estimated lives of fixed assets are as follows:

	<u>Years</u>
Buildings	10–50
Equipment	2–20
Improvements Other than Buildings	5–20

M. Accounts Payable

Accounts payable represent amounts, including salaries and wages, owed for goods and services received prior to year-end.

N. Claims Payable

Claims payable, reported in the proprietary funds of the primary government, represent both health and liability insurance claims payable at June 30, 1999. This includes both actual claims submitted, as well as actuarially determined claims incurred but not reported. Claims relating to the Commonwealth's liability insurance programs are reported in the Risk Management, Internal Service Fund, and the Risk Management, Enterprise Fund. Also, health insurance claims incurred but not reported are actuarially determined and reported in the Health Care, Internal Service Fund and the Local Choice Health Care, Enterprise Fund (see Note 18.A. and 18.B.).

The claims payable reported in the Expendable Trust Fund reflects the amount of anticipated

payments to the claimants of unclaimed property receipts and life insurance payments.

The Medical College of Virginia Hospitals Authority (Component Unit) reports claims payable which represent health insurance claims payable at June 30, 1999. Claims expenses and liabilities arising from services rendered are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable amount includes an estimate of claims that have been incurred but not reported (see Note 18C).

O. Obligations Under Securities Lending Program

In accordance with GASB 28, *Accounting and Financial Reporting for Securities Lending Transactions*, liabilities resulting from these transactions have been recorded as obligations under security lending transactions.

P. Long-Term Liabilities

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. Expenditures for principal and interest payments for governmental fund general obligation bonds and revenue bonds are recognized in the Debt Service Fund when due. Long-term liabilities expected to be financed from the proprietary funds, trust funds, and the discrete component unit funds, as well as the related interest payments, are accounted for in those funds (see Notes 16 and 19).

Q. Other Liabilities

Other liabilities represent amounts owed for various governmental and proprietary activities. Some of these amounts will be paid shortly after fiscal year end. Other amounts, such as lottery prizes and tuition benefits, will be paid over several years (see Note 20).

R. Deferred Revenue and Deferred Credit

Deferred Revenue

Deferred revenue represents monies received or revenues accrued but not earned as of June 30, 1999. The majority of this amount is reported in the Higher Education Fund (Component Unit), where it is primarily composed of revenue for student tuition accrued in advance of the semester. In the Special Revenue Funds, deferred revenue is composed primarily of Federal grant money received but not spent. In the Enterprise Funds, it represents unearned premiums of Risk Management and on-line ticket monies received by the State Lottery Department for which corresponding drawings have not been held. In the Internal Service Funds, it represents unearned premiums and rental income received but not spent for the Risk Management and Maintenance and Repair Funds, respectively. Deferred revenues in the proprietary component

units consist of the deferral of fees related to various lending activities.

Deferred Credit

The deferred credit represents the deferral of income taxes withheld for the period January through June 1999, that have not met the revenue recognition criteria and may ultimately be refunded upon the filing of income tax returns in subsequent years. This amount is estimated annually using statistical data derived from income taxes filed in previous years. Deferred credit totaling \$357.1 million is reported in the General Fund.

S. Reserved Retained Earnings

Reserved retained earnings indicate that portion of retained earnings that is segregated due to specific legal requirements or other externally imposed requirements (see Note 30).

T. Unreserved Retained Earnings

Unreserved retained earnings is the accumulated earnings of proprietary activities, net of amounts established as reserved retained earnings discussed in Note 1.S. above.

U. Reserved Fund Balances

Reserved fund balances indicate that portion of fund balance that is not available to fund operations or is legally segregated for specific future use (see Note 30).

V. Unreserved, Designated Fund Balances

Designations of fund balance, as shown in Note 3, are established to reflect tentative plans for future utilization of current financial resources. It is the policy of the Commonwealth to designate the portion of fund balance set aside by the General Assembly through the Appropriation Act to fund tentative but approved future plans. Unexpended appropriations approved by the Governor to be used to fund expenditures of the ensuing fiscal year are also reflected through a designation of fund balance. It is the policy of the Commonwealth to limit such designations in the event that their accumulation and presentation would cause a negative unreserved, undesignated fund balance to occur.

W. Unreserved, Undesignated Fund Balances

The unreserved, undesignated budgetary basis fund balance is the amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated fund balance described in Notes 1.U. and 1.V. above.

X. Cash Management Improvement Act

Included in "Due to Other Governments" is the Commonwealth's Cash Management Improvement Act (CMIA) interest liability to the Federal government, which is calculated in accordance with the interest calculation and exchange provisions of

the Federal Cash Management Improvement Act of 1990. The Commonwealth's interest liability is subject to review and final confirmation by the Financial Management Service (FMS) of the U.S. Treasury. The payment is to be made on or before March 1, 2000. Payment will be made from a sum sufficient appropriation authorized for this purpose by the Appropriation Act. The CMA interest rate of exchange is based by law on the annualized average earnings rate of 13-week Treasury bills.

Y. Eliminations

Eliminations have been incorporated into the report to eliminate intrafund transactions within the related fund type. These eliminations prevent overstatement of financial activity. Interfund balances and transactions have not been eliminated.

Z. Total Columns on Combined Statements

The presentation of component units is not meant to be a consolidation since transactions within the State entity have not been eliminated (except as noted in 1.Y. above), nor have fixed assets or long-term debt been reported in the applicable State account groups. However, appropriations to the component units are recorded as operating transfers out of the General Fund and as operating transfers into the Component Unit organization.

The total columns on the Combined Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Information in these columns does not present consolidated financial position, results of operations, or cash flows.

2. APPROPRIATIONS

The amounts presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budgetary Basis – General and Special Revenue Funds are principally on a cash basis and represent the original budget adopted by the General Assembly and all supplemental appropriations and transfers. The following schedule reconciles original appropriations to the final adjusted expenditure appropriations for the General Fund and all Special Revenue Funds:

<i>(Dollars in Thousands)</i>	General Fund (7)	Special Revenue Fund (7) (8) (9)
Appropriations (1)	\$ 9,771,894	\$ 5,726,173
Supplemental Appropriations:		
Reappropriations (2)	100,919	-
Subsequent Executive (3)	87,201	915,474
Subsequent Legislative (4)	119,254	195,856
Prior Year Reversions (5)	(26,557)	-
Transfers (6)	<u>(1,653,306)</u>	<u>163,037</u>
Appropriations, as adjusted	<u>\$ 8,399,405</u>	<u>\$ 7,000,540</u>

1. Represents the budget appropriated through Chapter 935, 1999 Acts of Assembly.
2. Actions taken to reappropriate any prior year unexpended balances per authority of the language in the Appropriation Act.
3. Actions taken by the Governor to carry forward any prior year unexpended balances (General Fund) and actions taken to appropriate any additional revenues collected so that they can be legally spent (Special Revenue Funds).
4. Actions taken by the General Assembly to adjust the budget.
5. Prior year reversions are included in the accounting system for monitoring, but do not represent current year appropriations.
6. Represents transfers required by the Appropriation Act.
7. The General and Special Revenue appropriations as reported in the Budget/Actual statement include payments for securities lending transactions of \$6,495,767 and \$1,463,011, respectively, as required by GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*. These amounts are not included above.
8. The Special Revenue appropriations as reported in the Budget/Actual statement include the amount for food stamps (\$399.6 million) as required by GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. This amount is not included above.
9. The Special Revenue appropriations as reported in the Budget/Actual statement includes expenditure reductions needed to eliminate budgetary deficits at the Department of Transportation. The amount above does not include these reductions of \$9.5 million.

3. GENERAL FUND ANALYSIS – BUDGETARY BASIS

The following schedule represents reservations and designations of General Fund balance on a budgetary basis as presented in the General Fund Preliminary (Unaudited) Annual Report dated August 15, 1999.

Reservations and Designations of Fund Balance General Fund, Budgetary Basis June 30, 1999

(Dollars in Thousands)

Fund Balance, June 30, 1999		\$ 1,599,630
Reserved Fund Balance:		
Revenue Stabilization Reserve Fund	\$ 361,472	
Revenue Stabilization Reserve 1998	194,135	
Payroll Reserve for July 1, 1999 Payroll	<u>60,982</u>	
Total Reserved Fund Balance		616,589
Unreserved Fund Balance:		
Designated:		
Amount Required for Reappropriation of 1999 Unexpended Balances:		
Mandatory Reappropriations	111,028	
Discretionary Reappropriations	39,426	
Capital Outlay	316,177	
Amount Required by Ch. 935, 1999 Acts of Assembly	365,121	
Virginia Water Quality Improvement Fund - Part A	15,533	
Virginia Water Quality Improvement Fund - Part B	18,507	
Natural Disaster Sum Sufficient	4,027	
Contingent Appropriations	1,620	
Revenue Stabilization Fund Contribution	<u>103,346</u>	
Total Designated Fund Balance		<u>974,785</u>
Undesignated Fund Balance, June 30, 1999		<u><u>\$ 8,256</u></u>

4. BUDGETARY BASIS VS. GAAP BASIS FUND BALANCE

Since the presentation of financial data on a budgetary basis differs from that presented under generally accepted accounting principles, a schedule reconciling the fund balance on a budgetary basis at June 30, 1999, to the fund balance on a modified accrual basis follows.

Fund Balance Comparison Budgetary Basis to GAAP Basis June 30, 1999

(Dollars in Thousands)

	General Fund	All Special Revenue Funds
Fund Balance, Budgetary Basis	\$ 1,599,630	\$ 882,560
Adjustments from Budget to GAAP, Undesignated:		
Accrued Revenues:		
Taxes	506,793	7,845
Tax Refunds	(135,255)	-
Other Revenue	7,992	268,910
Deferred Credit	(357,089)	-
Medicaid Payable	(158,629)	(170,434)
Accrued Expenditures	(289,749)	(56,973)
Fund Reclassification -		
Budget to GAAP	-	(79,567)
Literary Fund - Fund Balance (1)	-	433,340
Virginia Public Building Authority (1)	-	<u>30,776</u>
Fund Balance, GAAP Basis	<u><u>\$ 1,173,693</u></u>	<u><u>\$ 1,316,457</u></u>

(1) As discussed in Note 1.E., these Special Revenue funds have no approved budget.

5. REVENUE STABILIZATION FUND

The Revenue Stabilization Fund has principal and interest on deposit of \$361.5 million reserved as a part of General Fund equity. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for FY 1999, FY 1998, and FY 1997. The maximum amount allowed in FY 1999 is \$777.9 million. The FY 2000 deposit into the Revenue Stabilization Fund, which is appropriated in the amount of \$194.1 million, is also reserved. Consistent with past policy, \$103.3 million has been designated from the General Fund balances to pay for a sixth deposit into the Fund which is required based on FY 1999 revenues. The Fund is routinely segregated from the General Fund and can be used only for constitutionally authorized purposes.

6. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 1999, the carrying amount of cash for the primary government was \$201,651,451 and the bank balance was \$570,413,670. The carrying amount of cash for the component units was \$108,124,675 and the bank balance was \$251,471,760. Cash equivalents are investments with an original maturity of three months or less.

The deposits of the primary government and the component units are secured in accordance with the provisions of the Virginia Security for Public Deposits Act, Section 2.1–359 et seq. of the *Code of Virginia*. The Act requires any public depository that receives or holds public deposits to pledge collateral to the Treasury Board to cover public deposits in excess of Federal deposit insurance. The required collateral percentage is determined by the Treasury Board and ranges from 50 percent to 100 percent of public deposits in the case of a bank and 100 percent to 110 percent for a savings institution.

Securities pledged by banks and savings institutions, under the Act, are held by an approved escrow agent for the Treasury Board. In the event a depository bank defaults or becomes insolvent, the Treasury Board first assesses the collateral of the defaulting or insolvent institution and then assesses the collateral pledged by other public depositories on a statutory based ratio to the extent necessary to satisfy the assessment against the defaulting bank. The collateral pledged by all banks is sufficient to cover the uncollateralized public deposits of any single bank. Upon default or insolvency of a savings institution, the Treasury Board assesses the institution the amount of public funds on deposit in excess of Federal insurance. The State Treasurer liquidates the necessary pledged collateral of the institution to reimburse public depositors to the extent of the institution's deposit liability to them. As a result, these deposits are considered insured.

Certain deposits are held by trustees in accordance with the Trust Subsidiary Act, Section 6.1–32.8 et seq. of the *Code of Virginia*. The Act requires that cash held by trustees while awaiting investment or distribution is not to be used by an affiliate bank of the trustee in the

conduct of its business unless the affiliate bank delivers securities to the trust department as collateral that is at least equal to the fair value of the trust funds held on deposit in excess of amounts insured by Federal deposit insurance.

The Commonwealth is authorized, in accordance with the guidelines set forth in Section 2.1–327 et seq. of the *Code of Virginia*, to invest in the following:

- U. S. Treasury and agency securities
- Corporate debt securities of domestic corporations
- Asset-backed securities
- Mortgage-backed securities
- AAA rated obligations of foreign governments
- Bankers acceptances and bank notes
- Negotiable certificates of deposit
- Repurchase agreements
- Money market funds

Permitted investments include agency mortgage-backed securities, reported as U.S. Treasury and agency securities, and asset-backed securities, reported as corporate notes, which by definition usually expose the investor to prepayment risk.

Prepayment risk, or the prepayment option granted the borrower, can create uncertainty concerning cash flows, can affect the price of the security causing negative convexity, and can expose the investor to reinvestment risk. Similarly, many agency and corporate securities are callable after some predetermined date at a predetermined price. The call options in regular agency debentures and some corporate securities can be open ended and may significantly impact cash flows, security pricing and reinvestment risks of these securities.

Certain investments held in trust by the Treasurer of Virginia in accordance with bond indentures and resolutions may have more restrictive investment policies. Investment policies of institutions of higher education (Component Units) are established by the institutions' governing boards.

The Board of Trustees of the Virginia Retirement System (VRS) (Primary Government) has full power to invest and reinvest the trust funds in accordance with Section 51.1–124.30 of the *Code of Virginia*, as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such investments so as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so.

The information presented for the external investment pools was obtained from audited financial statements. Copies of the State Non-Arbitrage Program (SNAP) report may be obtained by writing Mentor Investment Group, Riverfront Plaza, 901 East Byrd Street, Richmond, Virginia 23219. Copies of the Local Government Investment Pool (LGIP) report may be obtained by writing the Department of the Treasury,

Post Office Box 1879, Richmond, Virginia 23218. Participation in these pools is voluntary, except for participants who borrow through the Virginia Public School Authority's pooled bond program and must participate in SNAP.

SNAP is an open-end management investment company registered with the Securities Exchange Commission (SEC). LGIP is not SEC-registered; however, it maintains a policy to operate in a manner consistent with SEC Rule 2a7.

Custodial Risk

Investments held by the Commonwealth at June 30, 1999, have been categorized according to the level of credit risk associated with its custodial arrangements at fiscal year end.

Credit risk, as used below, refers to the risk that the Commonwealth may not be able to obtain possession of its investments in the event of default by counterparty. The three types of credit risk are:

- Category 1, which includes investments that are insured or registered or for which securities are held by the Commonwealth or its agent in the Commonwealth's name;

- Category 2, which includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Commonwealth's name; and,
- Category 3, which includes uninsured and unregistered investments for which securities are held by the counterparty, or by its trust department or agent, but not in the Commonwealth's name.

Securities lent at year-end for cash collateral are presented as unclassified. Securities lent for non-cash collateral are classified according to the custodial arrangements.

The investments of the Pension Trust Funds are approximately 72.9 percent of the primary government investments that are in Category 1 and 99 percent of those in Category 3. Additionally, the entire amounts of Equity Index and Pooled Funds, Real Estate, Venture Capital, foreign currencies, and TBC Pooled Employee Trust Fund included in the primary government schedule are attributable to the Pension Trust Funds, and cannot be categorized because the investments are not evidenced by physical securities.

Investments - Primary Government

June 30, 1999

(Dollars in Thousands)

Type of Securities	Category			Fair Value
	1	2	3	
Investments - Categorized				
U. S. Treasury and				
Agency Securities	\$ 6,091,872	\$ -	\$ 77,002	\$ 6,168,874
Common and Preferred Stocks	10,874,530	-	4,385	10,878,915
Corporate Notes	1,013,481	-	-	1,013,481
Corporate Bonds	1,699,879	-	432	1,700,311
Commercial Paper	1,508,210	-	-	1,508,210
Municipal Securities	67,552	-	-	67,552
Repurchase Agreements	271,658	-	13,396	285,054
Other	14,976	-	-	14,976
Investments held by broker-dealers				
under securities loans				
VRS Separate Account	-	-	1,746,977	1,746,977
U.S. Government and	-			
Agency Securities	111,516	-	177,119	288,635
Common and Preferred Stocks	3,948	-	4,659	8,607
	<u>\$ 21,657,622</u>	<u>\$ -</u>	<u>\$ 2,023,970</u>	
Investments - Not categorized				
Deposits with the U. S. Treasury for				
Unemployment Compensation				1,024,276
Mutual, Money Market Funds				1,183,703
Foreign Currencies				30,429
Equity Index and Pooled Funds				12,145,439
Index Funds				44,560
Real Estate				1,136,449
Venture Capital				2,027,510
TBC Pooled Employee Trust Fund				1,267,099
Guaranteed Investment Contracts				257,541
Other				1,943,626
Component Units				
Investment in Primary				
Government's Investment Pool				(427,688)
Component Units				
Investment in Local				
Government Investment Pool				(157,704)
Investments held by broker-dealers				
under securities loans				
U.S. Government and Agency Securities				1,579,425
Common and Preferred Stocks				317,431
Corporate Bonds				111,307
Component Units				
Securities held in a Collateral Investment Pool				(15,587)
				<u>\$ 46,149,408</u>

Investments - Component Units

June 30, 1999

(Dollars in Thousands)

Dollars in thousands

Type of Securities	Category			Fair Value
	1	2	3	
Investments - Categorized				
U. S. Treasury and				
Agency Securities	\$ 707,281	\$ 14,679	\$ 83,988	\$ 805,948
Common and Preferred Stocks	393,858	15,309	7,398	416,565
Corporate Notes	35,266	2,026	-	37,292
Corporate Bonds	109,492	1,114	3,562	114,168
Commercial Paper	3,777	219	12,463	16,459
Municipal Securities	1,679,050	294	6,664	1,686,008
Repurchase Agreements	619,780	15,511	11,286	646,577
Asset Backed Securities	278,884	-	-	278,884
Agency Mortgage Backed	215,321	-	-	215,321
Mutual/Money Market Funds	-	-	6,990	6,990
Banker's Acceptance	-	-	321	321
Other	200	-	-	200
	<u>\$ 4,042,909</u>	<u>\$ 49,152</u>	<u>\$ 132,672</u>	
Investments - Not categorized				
Mutual, Money Market Funds				663,090
Real Estate				12,325
Federal Home Loan Bank Note				295,939
Other				1,155,920
Component Units				
Investment in Primary				
Government's Investment Pool				427,688
Component Units				
Investment in Local				
Government Investment Pool				157,704
Investments held by broker-dealers				
under securities loans				
Securities held in a Collateral Investment Pool				<u>15,587</u>
				<u>\$ 6,952,986</u>

Primary Government

Securities Lending

The State Treasury's securities lending program is managed by its Master Custodian, Bankers Trust Company, under a contract dated December 1, 1997. The enabling legislation for the securities lending program is § 2.1-328.6 of Chapter 18 Investment of Public Funds of the *Code of Virginia*, as amended. No significant violations of legal or contractual provisions were noted during the year. The general account participated in the securities lending program for the entire year.

All securities lending loans are on an open-ended or one-day basis and may be terminated by Treasury with a 24-hour notice. Per the contract with Bankers Trust Company, all pledged cash and other collateral attributable to loans made on the Commonwealth's behalf shall be maintained by the Master Custody Bank, and Treasury cannot pledge or sell such collateral absent a default.

The State Treasury's contract with Bankers Trust Company provides for loss indemnification against borrower default as a result of bankruptcy, insolvency, reorganization, liquidation, receivership or similar event. Additionally, Bankers Trust Company provides indemnification for any losses experienced from reinvestment of cash collateral in investments not authorized by the provisions of the investment guidelines for the Commonwealth of Virginia agreed upon by both parties and made a part of the Securities Lending Agreement. There were no losses resulting from default during the reporting period, nor recoveries of prior period losses during this reporting period.

When Government securities are loaned, the collateral received must be, at the time of the loan, at least 102 percent of fair value of the securities loaned and must be maintained at 100 percent or greater. There are no stated restrictions on the amount of securities that may be loaned, but the basic composition of the general account portfolio has only about 50 percent in loanable securities, thus effectively capping the maximum

percentage of the portfolio that may be loaned. Additionally, the general account portfolio is comprised of only 10 percent in Treasury securities, which are by far the most loanable securities. During the past fiscal year, approximately 15 percent of the lendable base of securities were on loan.

During the past year, a combination of U.S. Treasury and Agency securities have been loaned, with the majority of the loaned securities being U.S. Treasury securities. Collateral received included a combination of cash and non-cash securities, with the non-cash collateral being a combination of U.S. Treasury and Agency securities. The majority of the non-cash collateral was U.S. Agency securities.

Securities loaned for the general account as of June 30, 1999, had a reported amount of \$323,267,414 and a fair value of \$321,856,817. The fair value of the collateral received was \$330,814,150 providing for coverage of 102.8 percent. As a result, the State Treasury assumes no credit risk.

Current cash investment guidelines allow for a maximum weighted-average portfolio maturity of 45 days. At June 30, 1999, the cash reinvestment portfolio had a weighted average maturity of 20 days. Treasury's current cash reinvestment guidelines allow for investment in Government securities, AAA rated sovereign governments, commercial paper and corporate notes, negotiable certificates of deposit, certificates of deposit and time-deposits collateralized under the Virginia Security for Public Deposits Act, bankers acceptances, bank notes, repurchase agreements collateralized by U. S. Treasury and Agency issues, and registered money market funds. At June 30, 1999, cash reinvestments were as follows: \$34 million in certificates of deposit, \$37 million in corporate notes, \$77 million in commercial paper, and \$141 million in repurchase agreements collateralized by Government securities. Non-cash collateral at June 30, 1999, was \$37 million in Government securities.

Under authorization of the Board of Trustees, the VRS lends its fixed income and equity securities to various broker-dealers on a temporary basis. The program is administered through an agreement with VRS' custodial agent bank. All security loan agreements are collateralized by cash, securities or irrevocable letter of credit issued by major banks, having a fair value equal to at least 102 percent of the fair value on domestic securities and 105 percent on international securities. Securities received as collateral cannot be pledged or sold by VRS unless the borrower defaults. Contracts with the lending agent require them to indemnify the VRS if the borrowers fail to return the securities lent and related distributions, and the collateral is inadequate to replace the securities lent.

All security loans can be terminated on demand by either VRS or the borrowers. The majority of loans are open loans in which the rebate is set daily, resulting in a maturity of one or two days on average for loans, although securities are often out on loan for a longer period of time. The maturity of loans generally does not match the maturity of collateral investments, which averages 30 days. At year-end, VRS has no credit risk

exposure to borrowers because the amounts VRS owed the borrowers exceed the amounts the borrowers owe the VRS. The fair value of securities on loan at June 30, 1999, was \$2,020,629,000 and the value of collateral (cash and non-cash) was \$2,048,138,000.

Securities out on loan are included with investments on the Combining Statement of Plan Net Assets and are classified in the summary of custodial risk. The invested cash collateral is included in the statement as an asset and corresponding liability. The invested cash collateral is also classified in the summary of custodial risk.

As authorized by Section 2.1-328.6 of the *Code of Virginia*, the Virginia Lottery, through its master custodian, Bankers Trust Company, lends securities to various security brokers and lenders on a temporary basis for a fee. Up to 100 percent of the securities may be available for loan. All security loan agreements are collateralized at loan inception at 102 percent of fair value by cash or U. S. government obligations and adjusted to market daily to cover fair value fluctuations. As a result, management assumes no credit risk. The maturity of loans does not usually match the maturity of the collateral investments.

The Virginia Lottery does not have the ability to use cash collateral or to pledge or sell collateral securities absent borrower default. The Lottery's contract with Bankers Trust Company provides for loss indemnification against borrower default as a result of bankruptcy, insolvency, reorganization, liquidation, receivership or similar event. There were no losses resulting from default during the reporting period, nor recoveries of prior period losses during this reporting period. At June 30, 1999, the fair value of investment account securities on loan was \$19,689,213 and the value of collateral (cash and non-cash) was \$20,082,997.

Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, or swap contracts. In addition, some traditional securities can have derivative-like characteristics such as structured notes where the return may be linked to one or more indices and asset-backed securities such as collateralized mortgage obligations which are sensitive to changes in interest rates and prepayments. Futures, forwards, options and swaps are generally not recorded on the balance sheet, whereas structured notes and asset-backed investments generally are recorded.

The VRS is a party, both directly and indirectly, to various derivative financial investments off and on the balance sheet that are used in the normal course of business to enhance returns on investments and manage risk exposure to changes in value due to fluctuations in market conditions. These investments may involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the balance sheet. Credit risk is the possibility that loss may occur from failure of a counterparty to perform according to the terms of the contract. Market risk arises due to

adverse changes in market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the fair value of a financial investment and/or increase in its funding cost.

In addition to the derivative financial instruments directly held, the VRS may have indirect exposure to risk through its ownership interests in commingled investment funds that use, hold, or write derivative financial instruments. Indirect exposure may also arise from stock lending programs in which the commingled funds participate. Such programs usually reinvest a portion of their cash collateral holdings in derivative instruments. The VRS' pro rata share of the contractual or notional amounts of outstanding derivative transactions in commingled investment funds and security lending programs approximated \$140,494,000 at June 30, 1999.

Forward, Futures, and Options Contracts

Forward contracts are contracts to purchase or sell, and futures contracts are contracts to deliver or receive financial instruments, foreign currencies or commodities at a specified future date and at a specified price or yield. Futures contracts are traded on organized exchanges (exchange traded) and require initial margin (collateral) in the form of cash or marketable securities. The net change in the futures contract value is settled in daily cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures position. Accordingly, the amount at risk due to nonperformance of counterparties to futures contracts is minimal. In contrast, forward contracts traded over-the-counter are generally negotiated between two counterparties and are subject to credit risks due to nonperformance of one of the counterparties and to market risks as a result of adverse fluctuations in market prices, interest rates and foreign exchange rates. At June 30, 1999, the VRS had purchased S & P Index futures and options on Eurodollar and Treasury bond note futures with a fair value of \$2,066,286,000 and sold Treasury bond and note futures including options on these futures with a net fair value of \$40,079,000.

Forward, futures and options contracts provide the VRS with the opportunity to build passive benchmark positions, manage portfolio duration in relation to various benchmarks, adjust portfolio yield curve exposure, and gain market exposure to various indices in a more efficient way and at lower transaction costs. Credit risks depend on whether the contracts are exchange traded or are executed over-the-counter. Market risks arise from adverse changes in market prices, interest rates and foreign exchange rates.

In addition to unsettled purchases and sales, accounts receivable and accounts payable for security transactions at June 30, 1999, include receivables for margin deposits of \$53,673,000, deposits with brokers for securities sold short of \$1,434,319,000, and payables for securities sold short and not covered with fair values of \$1,471,325,000.

Asset-Backed Securities

In the area of on-balance sheet financial instruments with derivative-like characteristics, the VRS invests in various asset-backed securities such as collateralized mortgage obligations (CMO), principal-only strips (PO), and interest-only strips (IO) primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. CMO securities are bonds collateralized by mortgage-backed securities and issued in several tranches that represent a reallocation of the underlying mortgage-backed securities cash flows. Both PO and IO securities are created by splitting the asset-backed securities into principal-only and interest-only portions. At June 30, 1999, the VRS held CMO securities with a fair value of \$181,101,000, and IO and PO securities with a fair value of \$8,174,000.

The credit risks on the various asset-backed securities in which the VRS invests are usually very low. Many of the securities held by the VRS are issued by quasi-U.S. governmental agencies. Others are issued by organizations with AAA or AA credit ratings. The market risk of these securities is dependent on changes in interest rates and the level of the underlying prepayments, i.e., when the mortgagors repay the underlying principal and interest.

Foreign Exchange Contracts

Foreign exchange contracts include forward, futures and options contracts and involve either the exchange of specific amounts of two currencies or the delivery of a fixed amount of a currency at a future date and specified exchange rate. Forward and futures contracts settle three or more business days from the contract date. Forward contracts are negotiated over the counter between two counterparties, while futures contracts are exchange traded. Foreign currency options, which are either negotiated between two counterparties or are exchange traded, grant the buyer the right, but not the obligation, to purchase or sell at a specified price, a stated amount of an underlying currency at a future date. At June 30, 1999, the VRS had sold foreign currency contracts with a fair value of \$750,249,000 and had purchased foreign currency contracts with a fair value of \$751,359,000. In addition, VRS had purchased options on foreign currency with a fair value of \$2,937,000.

Foreign exchange contracts are frequently used by the VRS to protect the base currency (\$US) value of portfolio assets denominated in foreign currencies against fluctuations in the values of the foreign currencies. The credit risk of currency contracts that are exchange traded lies with the clearinghouse of the exchange where the contracts are traded. The credit risk of currency contracts traded over-the-counter lies with the counterparty, and exposure is usually equal to the unrealized profit on in-the-money contracts. The market risk in foreign currency contracts is related to adverse movements in currency exchange rates.

Component Units

Derivative Financial Instruments

The University of Virginia from time to time may use, through its investments and through investments in pooled funds, a variety of derivative securities including futures, options and forward foreign currency contracts. These financial instruments are used to modify market risk exposure. Futures contracts and options on futures contracts are traded on organized exchanges and require collateral or margin in the form of cash or marketable securities. The net change in the futures contract value, if any, is settled with a cash transaction on a daily basis. Holders of futures contracts look to the exchange for performance under the contract and not the entity holding the offsetting futures position. Accordingly, the amount of risk due to non-performance of counterparties to the futures contracts is minimal. Foreign exchange contracts are used to protect the University's portfolio against fluctuations in the values of

foreign currencies. The credit risk of forward currency contracts traded over-the-counter lies with the counterparty. Asset swap contracts are privately negotiated agreements between two participants to exchange the return stream derived from their assets to each other without exchanging underlying assets. The University uses asset swaps to gain exposure to certain market sectors in lieu of direct investment. The credit risk lies with the intermediary who arranges the asset swap. As of June 30, 1999, the fair value of the University's derivative exposure consisted of \$496,748 in commitments to purchase futures contracts, \$3,177,219 in commitments to sell futures contracts \$1,803,758 in commitments to purchase options and warrants, \$411,666 in commitments to sell options and warrants, \$475,168 in commitments to purchase forward foreign exchange contracts, \$256,118 in commitments to sell forward foreign exchange contracts, and \$1,345,535 in commitments to purchase asset swap contracts.

7. RECEIVABLES

The following schedule details the accounts, loans, taxes, and other receivables presented in the various funds:

Schedule of Receivables

June 30, 1999

(Dollars in Thousands)

	Accounts and Loans Receivable	Taxes Receivable	Other Receivables	Allowance for Doubtful Accounts	Net Accounts Receivable
Primary Government:					
General Fund	\$ 129,359	\$ 505,850	\$ -	\$ (60,983)	\$ 574,226
Special Revenue Funds	663,555	8,588	6,190	(75,571)	602,762
Debt Service	-	-	1	-	1
Capital Projects	-	-	130	-	130
Enterprise Funds	51,244	-	3,181	(150)	54,275
Internal Service Funds	92,197	-	99	(870)	91,426
Trust and Agency Funds	1,174	111,929	2,452,481	(10,244)	2,555,340
Total Primary Government	937,529	626,367	2,462,082	(147,818)	3,878,160
Component Units:					
Governmental Fund	2,698	-	261	-	2,959
Proprietary Fund	6,082,839	-	141,843	(35,113)	6,189,569
Higher Education Fund	390,795	-	-	(80,444)	310,351
Total Discrete Component Units	6,476,332	-	142,104	(115,557)	6,502,879
Total Receivables	<u>\$ 7,413,861</u>	<u>\$ 626,367</u>	<u>\$ 2,604,186</u>	<u>\$ (263,375)</u>	<u>\$ 10,381,039</u>

8. INTERFUND ASSETS/LIABILITIES

Due to/from Other Funds

Due to Other Funds are amounts owed by one fund to another fund for goods purchased or services obtained. Due from Other Funds are amounts to be received from one fund by another fund for goods sold or services rendered.

The following schedule shows the Due to/from Other Funds as of June 30, 1999.

Schedule of Due to / from Other Funds
June 30, 1999

(Dollars in Thousands)

Fund	Due From	Due To
Primary Government		
General		
General Fund	\$ 6,253	\$ 5,084
Special Revenue		
Commonwealth Transportation	10,144	9,755
Federal Trust	12,349	-
Other	1,181	34
Total Special Revenue	23,674	9,789
Capital Projects		
Primary Government	-	7,671
Virginia Public Building Authority	-	340
Total Capital Projects	-	8,011
Enterprise		
State Lottery Department	-	783
Department of ABC	-	3,909
Consolidated Laboratories	-	265
Department of Environmental Quality	-	960
Pocahontas Parkway Association	-	10,144
Total Enterprise	-	16,061
Internal Service		
Central Warehouse	-	251
Risk Management	1,800	-
Virginia Sickness and Disability	349	756
Total Internal Service	2,149	1,007
Pension Trust		
Virginia Retirement System	2,004	2,954
State Police Officers Retirement System	1,378	10
Judicial Retirement System	1,401	5
Retiree Health Insurance Credit	-	498
Group Life	-	909
Total Pension Trust	4,783	4,376
Investment Trust		
Local Government Investment Pool (LGIP)	-	1,175
Total Investment Trust	-	1,175
Expendable Trust		
Expendable Trust	7,993	91
Agency		
Child Support Collections Fund	30	8,123
Total Trust and Agency	12,806	13,765
Total Primary Government	44,882	53,717

Schedule of Due to / from Other Funds

June 30, 1999

(Continued)

(Dollars in Thousands)

Fund	Due From	Due To
Component Units		
Governmental		
Virginia Port Authority	4,125	-
Total Governmental	4,125	-
Proprietary		
Virginia Port Authority	-	4,125
Medical College of Virginia Hospitals Authority	-	4,554
Total Proprietary	-	8,679
Higher Education		
College of William and Mary	226	-
University of Virginia	7,122	-
Virginia Polytechnic Institute and State University	9,067	-
Virginia Military Institute	164	-
Virginia State University	224	-
Norfolk State University	387	-
Mary Washington College	283	-
James Madison University	1,647	-
Radford University	491	-
Old Dominion University	3,579	-
Virginia Commonwealth University	10,989	-
George Mason University	2,123	-
Virginia Community College System	4,666	-
Non-Major Component Units	1,338	28,917
Total Higher Education	42,306	28,917
Total Component Units	46,431	37,596
Total	\$ 91,313	\$ 91,313

Interfund Receivables/Payables

Interfund Receivables/Payables are short-term loans made by one fund to another.

The following schedule shows the Interfund Receivables/Payables for the Primary Government as of June 30, 1999. There were no Interfund Receivables/Payables for the Component Units as of June 30, 1999.

Interfund Receivables/Payables
June 30, 1999

(Dollars in Thousands)

Fund	Interfund Receivables	Interfund Payables
Primary Government		
Special Revenue		
Federal Trust	\$ -	\$ 13,537
Dedicated	-	800
Other	50,356	151
Total Special Revenue	50,356	14,488
Capital Projects		
Primary Government	-	149
Enterprise		
State Lottery Department	-	12,000
Department of ABC	-	23,719
Total Enterprise	-	35,719
Total Primary Government	\$ 50,356	\$ 50,356

Loans Receivable/Payable Between Other Funds and Between Primary Government and Component Units

The \$1.5 million Loans Receivable from Other Funds represents a loan made from the Special Revenue Fund to the Internal Service Fund. The Department of Corrections paid the remaining balance owed by Correctional Enterprises for a warehouse, raw materials and supplies. There is no established due date or interest terms for the outstanding loan balance.

The Literary Fund, a Special Revenue Fund, provides low interest loans to school divisions for construction, renovation, and expansion of school buildings of the cities, counties and towns of the Commonwealth. Twice a year, all permanent loans in the Literary Fund are transferred to the Virginia Public School Authority (Component Unit) for use as collateral on bonds. A loan receivable is recorded by the Literary Fund. At year-end, \$297.5 million in loans were receivable in the Special Revenue Fund and payable from the Authority.

The \$5.0 million in Loans Receivable from Component Units represents loans from the Special Revenue Fund to Higher Education (Component Unit). George Mason University's loan of \$2.0 million and the College of William and Mary's loan of \$0.7 million were used to advance fund federally funded grant programs. Longwood College's loan of \$1.0 million will be used for

the College's housing sprinkler project. The balance of \$1.3 million is spread among various Higher Education Institutions

The Virginia Public School Authority makes grants to local school divisions to finance the purchase of educational technology equipment. The Authority makes these grants using the proceeds of notes issued for that purpose which will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund. Under this arrangement, the Authority is owed \$83.1 million from the Literary Fund at year-end.

9. RESTRICTED ASSETS

Restricted assets represent monies or other resources that must be used for specific legal or contractual requirements. The Medical College of Virginia Hospitals Authority (Component Unit) reported restricted assets totaling \$167.2 million for debt service under a bond indenture agreement, amounts designated by the Board of Directors for capital acquisition, resources restricted under malpractice trust agreement, resources restricted by insurance regulations of the Commonwealth of Virginia, and resources restricted under the pension plan agreement. The remaining \$1.7 million is spread among the Virginia Port Authority and the Small Business Financing Authority.

10. OTHER ASSETS

The following table (reported in thousands of dollars) summarizes Other Assets as of June 30, 1999:

						Total Primary Government
	General	Special Revenue	Enterprise	Internal Service	Trust and Agency	June 30, 1999
Cash and Travel						
Advances	\$ 1,646	\$ 1,701	\$ 195	\$ 37	\$ 10	\$ 3,589
Unamortized Bond						
Issuance Expenses	-	-	6,957	-	-	6,957
Other Assets	-	-	7,855	-	62	7,917
Total Other Assets	<u>\$ 1,646</u>	<u>\$ 1,701</u>	<u>\$ 15,007</u>	<u>\$ 37</u>	<u>\$ 72</u>	<u>\$ 18,463</u>

	Component Units			Total Reporting Entity
	Governmental Fund	Proprietary Fund	Higher Education	June 30, 1999
Cash and Travel				
Advances	\$ 230	\$ 6	\$ 966	\$ 4,791
Unamortized Bond				
Issuance Expenses	-	14,146	-	21,103
Other Assets	308	6,988	48,647	63,860
Total Other Assets	<u>\$ 538</u>	<u>\$ 21,140</u>	<u>\$ 49,613</u>	<u>\$ 89,754</u>

11. PROPERTY, PLANT, AND EQUIPMENT

The following schedule presents the changes in the General Fixed Assets Account Group by category for the primary government:

Schedule of Changes in General Fixed Assets Primary Government				
(Dollars in Thousands)				
	Balance July 1, 1998	Acquisitions	Deductions	Balance June 30, 1999
Land	\$ 227,435	\$ 4,541	\$ (1,008)	\$ 230,968
Buildings	1,722,957	318,268	(1,263)	2,039,962
Equipment	787,096	85,975	(41,925)	831,146
Improvements Other Than Buildings	127,487	11,774	(350)	138,911
Construction in Progress	399,176	87,010	(316,148)	170,038
Total General Fixed Assets	<u>\$ 3,264,151</u>	<u>\$ 507,568</u>	<u>\$ (360,694)</u>	<u>\$ 3,411,025</u>

The following schedule presents the changes in the General Fixed Assets by Category for the Component Units - Governmental Fund:

Schedule of Changes in General Fixed Assets Component Units - Governmental Fund				
(Dollars in Thousands)				
	Balance July 1, 1998, As restated	Acquisitions	Deductions	Balance June 30, 1999
Land	\$ 96,895	\$ -	\$ -	\$ 96,895
Buildings	54,965	586	(172)	55,379
Equipment	95,328	1,856	(148)	97,036
Improvements Other Than Buildings	206,063	10,067	-	216,130
Construction in Progress	53,688	42,348	(10,858)	85,178
Total General Fixed Assets	<u>\$ 506,939</u>	<u>\$ 54,857</u>	<u>\$ (11,178)</u>	<u>\$ 550,618</u>

The following schedule details fixed assets that are recorded in funds other than those represented above:

Summary of Fixed Assets in Proprietary Funds, Fiduciary Funds, and Component Units June 30, 1999

(Dollars in Thousands)					
	Enterprise Funds	Internal Service Funds	Trust and Agency Funds	Component Units Higher Education Fund	Proprietary Fund
Land	\$ 1,736	\$ 310	\$ -	\$ 149,099	\$ 14,193
Buildings	10,421	5,519	-	3,043,418	962,209
Equipment	76,381	122,249	6,860	1,632,859	228,331
Improvements Other Than Buildings	1	36	-	253,146	-
Construction in Progress	90,804	136	-	531,621	25,661
Livestock	-	-	-	740	-
Less:					
Accumulated Depreciation	(57,257)	(73,572)	-	-	(583,508)
Total Fixed Assets	<u>\$ 122,086</u>	<u>\$ 54,678</u>	<u>\$ 6,860</u>	<u>\$ 5,610,883</u>	<u>\$ 646,886</u>

12. RETIREMENT AND PENSION SYSTEMS

A separately issued financial report that includes financial statements and required supplemental information for each of the individual plans discussed below is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

A. Plan Description

The Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer retirement plan, provides defined benefit pension plan coverage for State employees, teachers, political subdivision employees and other qualifying employees. The assets accumulated by the plan may legally be

used to pay all benefits provided by the plan to any of the plan members or beneficiaries. At June 30, 1999, the VRS had 768 contributing employers. The State Police Officers' Retirement System (SPORS) and the Judicial Retirement System (JRS) are single-employer defined benefit retirement plans. The SPORS provides retirement benefits to Virginia State police officers, and the JRS provides retirement benefits to the Commonwealth's judiciary. All retirement systems are administered by the Virginia Retirement System (System), an independent agency of the Commonwealth.

Benefit provisions and all other requirements are established by Title 51.1 of the Code of Virginia. All full-time, salaried, permanent employees of the Commonwealth, with the exception of certain full-

time faculty and administrative staff of higher education institutions and eligible employees of the state's teaching hospital who have the option not to participate in the VRS, must participate in the VRS, SPORS, or JRS. Benefits vest after five years of service.

Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers). Employees who retire with a reduced benefit at age 50 with at least ten years of credited service or at age 55 (age 50 for participating law enforcement officers) with at least five years of credited service are entitled to an annual retirement benefit payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. AFS is defined as the yearly average of the highest consecutive 36 months of salary.

Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Members of the SPORS may receive a monthly benefit supplement if they retire prior to age 65. Members of the JRS receive weighted years of creditable service for each year of actual service for the JRS. The VRS, SPORS, and JRS also provide death and disability benefits. These benefit provisions and all other requirements are established by State statute.

B. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the pension trust funds are prepared using the economic resources measurement focus and the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed, and investment income is recognized as earned by the pension plans. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans.

Method Used to Value Investment

Investments are reported at fair value as determined by VRS' master custodian Boston Safe Deposit and Trust Company (Mellon Trust) from its Global Pricing System. This system assigns a price source, based on asset type and the vendor pricing products to which the master custodian subscribes, for every security held immediately following its

acquisition. Prices supplied by these sources are monitored on a daily basis by the master custodian.

The pricing sources utilized by the master custodian provide daily prices for equity securities, corporate, government and mortgage-backed fixed income securities, private placement securities, futures and options on futures, open-ended funds, and foreign exchange rates. Collateralized mortgage obligations (CMOs), adjustable rate mortgages (ARMs), and asset-backed securities are priced weekly and at month end. Municipal fixed income securities are priced twice a month, and options on Treasury/Government National Mortgage Association (GNMA) securities are priced at month end.

When a price source is unable to provide a price, quotes are sought from major investment brokers and market making dealers or internal calculations are applied if feasible. As a last resort, the master custodian will contact investment managers for a price. The master custodian prices commingled funds, partnerships, and real estate assets from statements received from the funds, partnerships, or investment managers.

The systems have no concentrations of investments in any one organization that represent 5 percent or more of plan net assets available for benefits.

C. Funding Policy

Employer and employee contributions are required by Title 51.1 of the *Code of Virginia*. The Commonwealth pays the 5 percent of employees' annual salaries that employees are required to contribute to the retirement system.

Employer contributions by the Commonwealth to VRS and SPORS were 5.84% and 16.84% of covered payrolls from July 1 through December 31, and 5.10% and 15.84% from January 1 through June 30, respectively. The Commonwealth contributed 31.68% of covered payrolls to JRS during the fiscal year. These rates were less than actuarially determined Annual Required Contributions (ARC), but they did meet statutory requirements. The ARC has parameters for funding automatic cost-of-living increases (COLAs) for retirees. The Commonwealth has elected the option that allows contributions to include an annual amount that would phase-in the parameters over a five-year period ending with fiscal year 2002.

D. Annual Pension Cost and Net Pension Obligation

The following table (reported in thousands of dollars) shows the Commonwealth's annual pension cost and net pension obligation to VRS, SPORS, and JRS for the current and prior years.

	VRS		SPORS		JRS	
	1999	1998	1999	1998	1999	1998
Annual required contribution	\$ 217,448	\$ 195,744	\$ 16,767	\$ 11,909	\$ 14,295	\$ 12,949
Interest on net pension obligation	10,076	4,424	485	203	249	104
Adjustment to annual required contribution	(7,148)	(3,139)	(345)	(144)	(177)	(74)
Annual pension cost	220,376	197,029	16,907	11,968	14,367	12,979
Contributions made	(151,898)	(126,388)	(11,576)	(8,435)	(12,938)	(11,166)
Increase in net pension obligation	68,478	70,641	5,331	3,533	1,429	1,813
Net pension obligation beginning of year	125,947	55,306	6,071	2,538	3,118	1,305
Net pension obligation end of year	<u>\$ 194,425</u>	<u>\$ 125,947</u>	<u>\$ 11,402</u>	<u>\$ 6,071</u>	<u>\$ 4,547</u>	<u>\$ 3,118</u>
Percentage of annual pension cost contributed	68.9%	64.1%	68.5%	70.5%	90.1%	86.0%

A VRS pension liability for the Virginia Economic Development Partnership (VEDP) (Component Unit) is reported in the financial statements. However, since the Commonwealth is not considered the employer for VEDP, the Commonwealth's net pension obligation shown above at the end of the year does not include VEDP's pension liability of \$522,000.

The annual required contributions for the current year were determined by the June 30, 1996, actuarial valuation, and the most recent actuarial valuation of assets was determined at June 30, 1998. Both actuarial valuations were prepared using the entry age normal cost method. The actuarial assumptions included (a) 8% investment rate of return, per year compounded annually; (b) projected salary increases ranging from 4.00% to 6.15%, including a 4% inflation component; and (c) 3.5% per year COLA. Valuation techniques were applied to smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 1998, was 28 years.

E. Defined Contribution Plan for Political Appointees

Officers appointed by the Governor, officers elected by popular vote or the General Assembly, and executive branch chief deputies and confidential assistants may participate in an optional retirement plan, rather than the Virginia Retirement System (VRS). This optional retirement plan is authorized by the Code of Virginia and offered through the Copeland Company. This is a defined contribution

plan where the retirement benefits are based upon the Commonwealth's (5.4 percent) and the employee's (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 1999, the total contributions to this plan were \$775,809. This represents current contributions of \$405,377 and previous contributions for individuals opting into the plan of \$374,432.

The plan has no concentration of investments in any one organization that represents 5 percent or more of the plan net assets available for benefits.

F. Higher Education Fund (Component Unit)

The Commonwealth's colleges and universities participate in the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in an optional retirement annuity program, rather than the VRS. Optional Retirement Plans are authorized by the *Code of Virginia* and provide retirement and death benefits. The optional retirement annuity programs are offered through Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) Insurance Companies, Variable Annuity Life Insurance Company (VALIC), Fidelity Investments, Inc., Great West Life, Inc., T. Rowe Price, Inc., and Metropolitan Life. These are defined contribution programs where the retirement

benefits received are based upon the Commonwealth's (5.4 percent) and employees' (5.0 percent) contributions, plus interest and dividends. The Commonwealth pays the required employee contributions. During the year ended June 30, 1999, the total contributions to these plans were:

TIAA-CREF	\$46,618,978
VALIC	2,815,366
Fidelity Investments	14,200,422
Great West Life	356,353
T. Rowe Price	1,557,500
Metropolitan Life	4,369
Total	<u>\$65,552,988</u>

The Innovative Technology Authority (ITA) has a defined contribution retirement plan covering substantially all employees. Under the plan, contributions are fixed at a percentage of each employee's compensation to pay premiums for individual retirement annuity contracts written by TIAA-CREF. Pension contributions for the plan totaled \$377,985 in 1999.

G. Other Component Units

Note 1.B. outlines the component units included in the Commonwealth's reporting entity. The Virginia Historic Preservation Foundation (Blended - Primary Government), the Virginia Public Building Authority (Blended - Primary Government), the Virginia Public School Authority, the Virginia College Building Authority, the State Education Assistance Authority, the Wireless E-911 Service Board, and the Virginia State Parks Foundation have no employees. The Virginia Resources Authority has no pension plan. The Virginia Economic Development Partnership, the Small Business Financing Authority, the Hampton Roads Sanitation District Commission, the Virginia Biotechnology Research Park Authority, the A. L. Philpott Manufacturing Extension Partnership and the Virginia Outdoors Foundation contribute solely to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer retirement plan. The VRS issues a separate stand-alone report that is publicly available as previously discussed.

Full-time employees of the Virginia Housing Development Authority participate in a defined contribution employees' retirement savings plan administered by the Authority. This is a noncontributory plan where the Authority incurs employment retirement savings expense equal to 8.0 percent of full-time employees' compensation. Total retirement savings expense under this plan was \$1,075,071 in fiscal year 1999. The retirement expense is fully funded as incurred, therefore, there is no unfunded future retirement liability.

The Virginia Port Authority contributes to the VRS. The Authority also sponsors two single employer noncontributory defined benefit pension plans. The Virginia Port Authority Pension Plans are administered by the Authority and provide retirement, disability, and death benefits to plan

members and beneficiaries. Benefit provisions and obligations are established and may be amended by the Board of Commissioners of the Authority. The Authority's policy is to fund annually the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The plan's financial report is audited annually and can be obtained through the Human Resource Department at the Authority.

The components of annual pension cost and prepaid pension obligation for the first single employer noncontributory defined benefit pension plan are as follows:

	1999	1998	1997
Service cost - benefits earned during the year	\$ 986,000	\$ 828,000	\$ 836,000
Interest cost on projected benefit obligation	1,484,000	1,321,000	1,230,000
Expected return on assets	(2,358,000)	(1,943,000)	(1,692,000)
Net amortization and deferral	<u>(136,000)</u>	<u>(211,000)</u>	<u>(212,000)</u>
Annual pension cost	(24,000)	(5,000)	162,000
Contributions made	<u>(192,000)</u>	<u>(598,000)</u>	<u>(573,000)</u>
Increase in prepaid pension obligation	(216,000)	(603,000)	(411,000)
Prepaid pension obligation, beginning of year	<u>(3,746,000)</u>	<u>(3,143,000)</u>	<u>(2,732,000)</u>
Prepaid pension obligation, end of year	<u>\$ (3,962,000)</u>	<u>\$ (3,746,000)</u>	<u>\$ (3,143,000)</u>

The annual pension cost for the current year was determined as part of the October 1, 1998, actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. The actuarial value of assets was determined using fair value. The discount rate and estimated rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.0 percent and 5.0 percent, respectively. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.0 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 1999, 1998, and 1997.

Three-Year Trend Information			
Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Obligation
1999	\$ (24,000)	800 %	\$ (3,962,000)
1998	\$ (5,000)	11,960 %	\$ (3,746,000)
1997	\$ 162,000	352 %	\$ (3,143,000)

The components of annual pension cost and prepaid pension obligation for the second single employer noncontributory defined benefit pension plan are as follows:

	<u>1999</u>
Service cost - benefits earned during the year	\$ 34,472
Interest cost on projected benefit obligation	1,992
Expected return on assets	(1,426)
Net amortization and deferral	<u>506</u>
Annual pension cost	35,544
Contributions made	<u>-</u>
Net pension obligation	<u><u>\$ 35,544</u></u>

The annual pension cost for the current year was determined as part of the October 1999 actuarial valuation using the aggregate actuarial cost method, which does not identify and separately amortize unfunded actuarial liabilities. Actual value of assets was determined using market value. The discount rate and estimated rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.0 percent and 5.0 percent, respectively. The expected long-term rate of return on assets used in determining net periodic pension cost was 8.0 percent.

The following table sets forth the plan's funded status and the related amounts recorded in the Authority's balance sheets at June 30, 1999. This is the first year, so no previous data exists.

<u>Trend Information</u>			
<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Prepaid Pension Obligation</u>
1999	\$ 35,544	- %	\$ 35,544

The Authority also sponsors two noncontributory supplemental plans covering certain key employees. The Authority's current policy is not to fund the costs of these plans. The plans had assets of \$1,366,379 and an accrued liability of \$1,999,537.

The Medical College of Virginia Hospitals Authority contributes to the VRS. The VRS issues a separate stand-alone report that is publicly available as previously discussed. Effective July 1, 1997, the Authority established the Medical College of Virginia Hospitals Authority Defined Contribution Plan (the Plan). All employees working at least 35 hours of service per week are eligible to participate in the Plan. At June 30, 1999, there were 1,968 participants in the Plan. Per the Plan document as approved by the Authority's Board of Directors, the Authority contributes 8.0 percent of the participant's salary to the Plan, up to a maximum of \$30,000.

Total contributions for the year ended June 30, 1999, were approximately \$4,175,000. The Authority has the right at anytime, and without the consent of any party, to terminate the Plan in its entirety. The Authority's Board of Directors must approve any changes to the provisions of the Plan, including the contribution requirements, in writing. In addition, the Authority has reported approximately \$26.6 million as restricted assets for the Plan. The Authority has also established the Medical College of Virginia Hospitals Authority Health Care Providers Defined Contribution Plan (the HCP Plan). All persons hired as a health care provider on or after July 1, 1993, and prior to July 1, 1997, and working at least 35 hours of service per week are eligible to participate in the HCP Plan. At June 30, 1999, there were 14 participants in the HCP Plan. All significant provisions of the HCP Plan, including the contribution requirements, are similar to the Plan. Total contributions to the HCP Plan for the year ended June 30, 1999, were approximately \$68,000.

The Virginia Equine Center Foundation has a defined contribution plan which covers all full-time employees of the Foundation who have one year of service and are age twenty-one or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the plan are discretionary and the Foundation will determine the amount to contribute to the plan each year. Total contributions for the year ended June 30, 1999, were \$57,229.

13. OTHER EMPLOYMENT BENEFITS

In addition to the pension plans, the Commonwealth participates in two other postemployment benefit plans administered by the Virginia Retirement System. Those two plans are Group Life Insurance and Retiree Health Insurance Credit. The significant accounting policies for both plans are the same as those described in Note 12 for pension plans. A separately issued financial report that includes financial statements for each of the individual plans is publicly available. Copies may be obtained by writing to Virginia Retirement System, P. O. Box 2500, Richmond, Virginia 23218-2500.

Group Life Insurance

The Group Life Insurance Plan provides life insurance benefits for State employees, teachers, employees of political subdivisions participating in the Virginia Retirement System (VRS), State police officers, judges and other qualifying employees.

As part of this plan, the State provides life insurance benefits for retired employees in accordance with Title 51.1 of the *Code of Virginia*. To be eligible, the employee must have retired or terminated employment after age 55 and have had five years of continuous service or retired because of disability. At retirement or termination, natural death coverage starts to reduce by 2 percent each month until coverage reaches 25 percent of its value at retirement or termination.

Postemployment life insurance benefits are advance funded on an actuarially determined basis using the aggregate cost actuarial method. Rates were determined in a June 30, 1996, actuarial valuation using the same actuarial assumptions used for determining pension plan contribution rates. Retirees are not required to contribute to the group life plan. The Commonwealth's actuarially required contribution rate for the current year was 0.72 percent of payroll. This contribution covers premiums for active employees and actual death claims for retirees. Based on a statutory requirement, the Commonwealth did not make contributions during the fiscal year.

Retiree Health Insurance Credit

The Retiree Health Insurance Credit Plan provides health insurance credits against the monthly health insurance premiums for retired State employees, State police officers and judges with at least 15 years of creditable service. Benefit provisions and eligibility requirements are established by Title 2.1 of the *Code of Virginia*.

The monthly credit amounts to \$4.00 per year of service not to exceed a maximum allowance of \$120.00. The contribution rate was determined as part of the June 30, 1996, actuarial valuation that determined the pension plan contribution rates. The Commonwealth's actuarially required contribution rate for the current year was 0.68 percent of payroll. Based on a statutory requirement, the Commonwealth did not make contributions during the last two and one-half months of the fiscal year.

14. DEFERRED COMPENSATION PLANS

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Virginia Retirement System (VRS) administers the deferred compensation plan, pursuant to the Government Employees Deferred Compensation Plan Act, Section 51.1, Chapter 6 et seq. of the *Code of Virginia*. VRS contracts with private corporations or institutions subject to the standards set forth in the *Code* to provide investment products as well as any other goods and services related to the administration of the deferred compensation plan. The Department of Accounts is responsible for the accounting, reconciliations, and record keeping associated with State employees' enrollment, payment to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by VRS for investment. The plan is designed so that each participant retains investment control of his/her individual account. The investment options range from a guaranteed rate of return to an aggressive growth fund account that seeks growth of capital. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is held in trust for the exclusive benefit of plan participants and their beneficiaries and is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the VRS has no fiduciary relationship with plan participants, plan

assets of \$384.9 million are not included in the financial statements.

The Virginia Housing Development Authority (Component Unit) has a deferred compensation plan available to all employees created in accordance with Internal Revenue Section 457. The Plan permits participants to defer a portion of their salary or wage until future years. The deferred compensation is not available to employees until termination, retirement, or death. The assets of the Plan are in an irrevocable trust with an external trustee and, accordingly, no assets or liabilities are reflected in the financial statements.

The Hampton Roads Sanitation District (Component Unit) offers all of its employees a choice of two plans created in accordance with Internal Revenue Code Section 457. Employees may elect to participate in either the Aetna Life Insurance and Annuity Company Plan or the ICMA Retirement Corporation. The plans allow employees to defer a portion of their compensation until future years. The District implemented GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, during fiscal year 1999. As a result, the assets and related liabilities of both plans are excluded from the financial statements.

The Virginia Port Authority (Component Unit) offers a deferred compensation plan and matching savings plan under Internal Revenue Code Sections 457 and 401(a), respectively, that cover substantially all nonunion employees with 90 days or more of service. The plans require VPA to match employee contributions in an amount equal to 50 percent of the first 3 percent of the participant's base pay contributed to the plan. Effective January 1, 1998, the Authority amended the deferred compensation plan to cease employer matching and nonmatching discretionary contributions. The Authority's total contribution to these plans was \$219,518 for the year ended June 30, 1999.

15. COMMITMENTS

A. Construction Projects

Highway Projects

At June 30, 1999, the Department of Transportation (Primary Government) had contractual commitments of approximately \$1,653.0 million for construction of various highway projects. Funding of these future expenditures is expected to be provided as follows: (1) Federal Funds – approximately 17.7 percent or \$292.0 million, (2) State Funds – approximately 74.2 percent or \$1,227.2 million, and (3) Proceeds from Bonds – approximately 8.1 percent or \$133.8 million.

Mass Transit Projects

At June 30, 1999, the Department of Rail and Public Transportation (Primary Government) had contractual commitments of approximately \$50.2 million for various public transportation projects. Funding of the future expenditures is expected to be as follows: (1) Federal Funds – approximately

22.5 percent or \$11.3 million, and (2) State Funds – approximately 77.5 percent or \$38.9 million.

Port Projects

At June 30, 1999, the Virginia Port Authority (Component Unit) was committed to construction contracts totaling \$87.7 million.

Sanitation District Project

At June 30, 1999, the Hampton Roads Sanitation District Commission (Component Unit) was committed to construction programs totaling \$40.1 million.

Medical College of Virginia Project

At June 30, 1999, the Medical College of Virginia Hospitals Authority (Component Unit) was committed to construction projects totaling \$69.4 million.

Higher Education Funds

Many of the colleges and universities are committed to construction contracts. As of June 30, 1999, these commitments totaled approximately \$253.3 million.

B. Operating Leases

The Commonwealth has entered into numerous agreements to lease land, buildings, and equipment. Most of the operating leases contain the provision that the Commonwealth may renew the operating leases at the expiration date of the lease on a month-to-month basis. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases of a similar nature. Rental expense for the primary government under these operating leases for the year ended June 30, 1999, was \$56.2 million. Rental expense for the discrete component units for the year ended June 30, 1999, was \$35.4 million. The Commonwealth has, as of June 30, 1999, the following minimum rental payments due under the above leases:

	Primary Government	Component Units	Totals
2000	\$ 44,673,389	\$ 16,910,970	\$ 61,584,359
2001	32,635,501	12,417,431	45,052,932
2002	22,829,627	9,784,462	32,614,089
2003	15,753,923	7,591,970	23,345,893
2004	8,869,952	6,167,186	15,037,138
After 2004	35,012,995	18,395,047	53,408,042
Total	<u>\$ 159,775,387</u>	<u>\$ 71,267,066</u>	<u>\$ 231,042,453</u>

Lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

C. Investment Commitments – Virginia Retirement System

The Virginia Retirement System (VRS) extends investment commitments in the normal course of business, which, at June 30, 1999, amounted to \$1.4 billion.

16. ACCRUED LIABILITY FOR COMPENSATED ABSENCES

Employees accrue annual leave at a rate of four to seven hours semimonthly, depending on their length of service. The maximum accumulation is dependent upon years of service, but in no case may it exceed 336 hours.

All employees hired after January 1, 1999, are required to enroll in the Virginia Sickness and Disability Program (VSDP) (see Note 17). Under the VSDP, employees receive a specified number of sick and personal leave hours, depending on their length of service, and any balances at the end of the calendar year revert. Individuals employed at January 1, 1999, had the option of converting to the VSDP or remaining in the original sick leave plan. If converting, the employee's sick leave balance could be used to purchase retirement credits or be converted to disability credits. If an employee opted to remain in the original sick leave program, sick leave accrues at a rate of five hours semimonthly. Employees who leave State service after a minimum of five years employment receive the lesser of 25 percent of the value of their disability credits or accumulated sick leave at their current earnings rate or \$5,000. All employees leaving State service are paid for accrued annual leave up to the maximum calendar year limit at their current earnings rate.

In conformance with Section C60 of GASB Codification, the monetary value of accumulated annual and sick leave and disability credits payable upon termination is included in the accompanying financial statements. In the governmental fund types, amounts to be paid from expendable available resources are recognized as fund liabilities in the applicable governmental fund types (see Note 20). Amounts not payable from expendable resources are reflected in the General Long-Term Debt Account Group (see Note 19). All amounts related to the proprietary funds, trust funds, and the discrete component units are recognized in those funds (see Note 19). The liability at June 30, 1999, was computed using salary rates effective at that date, and represents vacation, compensatory and sick leave earned or disability credits held up to the allowable ceilings. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, an additional liability amount has been included for those employees remaining in the original sick leave program with less than 5 years of service based on the probability that they will eventually become vested. Also included in the liability is the Commonwealth's share of FICA taxes on leave balances for which employees will be compensated.

17. VIRGINIA SICKNESS AND DISABILITY PROGRAM

The Virginia Retirement System (System) administers the Virginia Sickness and Disability Program to provide income protection for absences due to sickness or disability from the first day on the job. After a seven calendar-day waiting period following the first incident of disability, eligible employees receive short-term disability benefits ranging from 60 to 100 percent of compensation up to a maximum of 125 work days, based upon months of State service. After a 180 calendar-day waiting period (125 work days of short-term disability), eligible employees receive long-term disability benefits equal to 60 percent of compensation until they return to work, until age 65 (age 60 for State police officers), or until death.

The VSDP was established on January 1, 1999, for all full-time, classified State employees, including State police officers, hired on or after January 1, 1999. Part-time, classified employees who work at least 20 hours a week on a salaried basis and who accrue leave are also covered. Eligible State employees and State police officers of the Commonwealth employed prior to January 1, 1999, had the option to elect to participate in the VSDP or to remain in the Commonwealth's existing disability retirement and sick leave program (see Notes 12 and 16). Eligible employees enrolled in the VSDP are not eligible for disability retirement benefits under either the Virginia Retirement System (VRS) or the State Police Officers' Retirement System (SPORS).

Faculty of Virginia institutions of higher education, hired or appointed on or after January 1, 1999, who elected VRS as their retirement plan, must make an irrevocable election to participate in the VSDP or in the institution's disability program. If there is no institution program, the faculty is covered under this program.

All State agencies were required to contribute to the cost of providing long-term disability benefits. Initial contribution requirements to fund the program were determined by the System's actuary based on an estimate of the amount of the liability for disability benefits that would transfer from VRS and SPORS to the VSDP for the anticipated new participants in the VSDP. This contribution requirement was 0.74 percent of payroll for State employees and 1.00 percent of payroll for State police officers during the fiscal year. The financial activity related to this program is reported in the Internal Service Fund.

18. INSURANCE

A. Self-Insurance

The Commonwealth maintains two types of self-insurance plans. The first type of self-insurance is a health care plan administered by the Department of Personnel and Training for State employees. The plan is accounted for in the Health Care, Internal Service Fund. Interfund premiums are accounted for as quasi-external transactions. At June 30, 1999, \$53.4 million is reported as the estimated claims payable for this fund. The estimated liability is based upon actual claims that have been submitted as well as actuarially determined claims

incurred but not reported as described in Note 1.N. Changes in the balances of claims liabilities (reported in thousands of dollars) during the current and prior fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1998-1999 \$	54,332	\$ 355,011	\$ (355,986)	\$ 53,357
1997-1998 \$	69,652	\$ 331,344	\$ (346,664)	\$ 54,332

The second type of plan, risk management insurance, is administered by the Department of General Services, Division of Risk Management, and is accounted for in the Risk Management, Internal Service Fund. Interfund premiums are accounted for as quasi-external transactions. Risk management insurance includes workers' compensation, property, general (tort) liability, medical malpractice, and automobile plans. At June 30, 1999, \$171.9 million is reported as the estimated claims payable for these self-insurance plans. The estimated losses are based upon actual claims that have been submitted as well as claims incurred but not reported. Changes in the balances of claims liabilities (reported in thousands of dollars) during the current and prior fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1998-1999 \$	170,488	\$ 50,760	\$ (49,354)	\$ 171,894
1997-1998 \$	174,593	\$ 39,023	\$ (43,128)	\$ 170,488

For workers' compensation, the Commonwealth assumes the full risk of claims filed. For tort, including general and automobile liability, liability is assumed to \$2,000,000 per occurrence. Medical malpractice liability is assumed to \$1,000,000 per occurrence. For property damage, Risk Management purchases \$400,000,000 of insurance with a \$1,000,000 deductible.

The Virginia Port Authority (Component Unit) is partially self-insured for certain workers' compensation claims. The Authority maintains insurance coverage of \$5,000,000 per claim, but is obligated to pay the first \$1,000,000 of any individual's claims per incident at June 30, 1999. The Authority is also partially self-insured for employee health coverage. The Authority is responsible for actual claim costs up to \$75,000 per individual per year. Insurance coverage is maintained for claims in excess of the individual employee limit and for aggregate claims in excess of \$1,455,691.

B. Public Entity Risk Pools

The Commonwealth administers two types of public entity risk pools for the benefit of local governmental units: health care and risk

management insurance. The Local Choice Health Care plan was established to make comprehensive health care insurance available to localities and political subdivisions at affordable rates and with stable premiums. During the fiscal year, there were 209 local government units participating in the pool. This includes 27 school districts, 37 counties, 76 cities/towns, and 69 other subdivisions. This program is accounted for in the Local Choice Health Care, Enterprise Fund.

The Department of Personnel and Training, under Section 2.1–20.1 of the Code of Virginia, has the authority to design, set rates, and administer the Local Choice Health Care fund. The pool's standard contract period is one year. However, a member group may withdraw on the last day of any month with three month's written notice. Contributions are based on the current necessary contribution and the amortization of experience adjustments in the pool. At June 30, 1999, \$8.5 million is reported as the actuarially determined estimated claims payable for this fund based on claims incurred but not reported.

The actuarial liability is determined for the membership pool in total and then adjusted for each locality based on individual historic and demographic data. If the pool's assets were to be exhausted, the program participants would share the responsibility for any liabilities or deficits.

The Department of General Services, Division of Risk Management administers risk management pools for errors and omissions liability insurance and law enforcement professional liability insurance in accordance with Section 2.1–526.8:1 of the Code of Virginia. They also administer a commuter rail liability pool for both the Northern Virginia and the Potomac & Rappahannock Transportation Commissions. These pools were established to provide an economical low-cost, internally managed alternative to the commercial insurance market for the Commonwealth's political subdivisions. These risk programs are accounted for in the Risk Management, Enterprise Fund. The pool is established subject to the approval of the Governor. It may be insurance, self-insurance, or any combination thereof, and must provide protection and legal defense against liability. Local participation is voluntary and open to any political subdivision. As of June 30, 1999, there were 1,427 units of local government in the pool. This includes all 135 sheriffs, 115 commonwealth attorneys, 124 clerks of the court, 39 cities, 185 towns, 95 counties, 131 treasurers, and 128 commissioners of revenue. The balance includes a large variety of boards, commissions, authorities, and special districts.

The pool has a minimum membership period of one year. However, a member group can cancel their membership and withdraw from the plan on their coverage anniversary date or at the end of the fiscal year with thirty days notice.

The pool is actuarially valued annually and is considered sound. Investment income is

considered in the anticipation of premium deficiencies. No excess insurance or reinsurance is provided, but a "stability fund" is incorporated into the actuarially determined required reserves. If, however, the plan assets and reserves were to be exhausted, the members would be responsible for any deficits or liabilities.

At June 30, 1999, \$6.9 million is reported as estimated claims payable for these programs. This figure is actuarially determined for the fund in total and is reported at gross and does not reflect possible reimbursements for insurance recoveries.

The following schedule (reported in thousands of dollars) shows the changes in claims liabilities for the past two fiscal years.

	Local Choice Health Care		Risk Management	
	June 30, 1998	June 30, 1999	June 30, 1998	June 30, 1999
Unpaid Claims and Claim Adjustment Expenses at Beginning of Fiscal Year	\$ 6,264	\$ 8,200	\$ 7,069	\$ 8,265
Incurred Claims and Claim Adjustment Expenses:				
Provision for Insured Events of the Current Fiscal Year	56,133	65,406	3,811	3,786
Changes in Provision for Insured Events of Prior Fiscal Years	-	-	611	(229)
Total Incurred Claims and Adjustment Expenses	56,133	65,406	4,422	3,557
Payments:				
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	54,197	65,077	434	439
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	-	-	3,524	4,639
Total Payments	54,197	65,077	3,958	5,078
Change in Provision for Discounts	-	-	732	161
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Discounted)	\$ 8,200	\$ 8,529	\$ 8,265	\$ 6,905
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year (Undiscounted)	\$ 8,200	\$ 8,529	\$ 8,876	\$ 7,364

For the liability insurance pool, local participation is voluntary and open to any political subdivision. The risk assumed by the local public entity pool for member liability is \$1,000,000 per occurrence. The commuter rail liability pool was established to fulfill the liabilities of the Commissions. As a result of the Commissions' agreement with several localities, participating localities contribute to the pool based on the number of residents riding the commuter rail and their total population. This pool assumes liability up to \$5,000,000 per occurrence, and commercial insurance has been purchased to pay larger claims subject to an annual aggregate limit of \$200,000,000.

C. Component Units

Claims expenses and liabilities arising from services rendered to Virginia Chartered Health Plan, Inc.'s (VA Chartered) (a Component Unit of the Medical College of Virginia Hospitals Authority) HMO members are reported when it is probable that services have been provided and the amount of the claim can be reasonably estimated. The claims payable at June 30, 1999, includes an estimate of claims that have been incurred but not reported. At June 30, 1999, the amount of these liabilities was \$5,175,117. This liability is VA Chartered's best estimate based on available information. Information prior to fiscal year 1998 is unavailable.

Commonwealth. Tax-supported debt includes all bond issues supported by State tax revenues (net of sinking fund requirements) and short-term debt, for which debt service payments are made or are ultimately pledged to be made from general governmental funds.

Other 9(d) revenue bonds are considered non-tax supported. For this debt, the Commonwealth has no direct or indirect pledge of tax revenues. However, in some cases, the Commonwealth has made a moral obligation pledge to consider funding deficiencies in debt service reserves that may occur. These bonds are considered to be moral obligation debt.

Purchase Date Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
\$ 4,685,041	\$ 16,703,812	\$ (16,213,736)	\$ 5,175,117

19. LONG-TERM LIABILITIES

Commonwealth bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(a) bonds have been issued to redeem previous debt obligations. Section 9(b) bonds have been authorized by the citizens of Virginia through bond referenda to finance capital projects. These bonds are retired through the use of State appropriations. Section 9(c) bonds are issued to finance capital projects which, when completed, will generate revenue to repay the debt. Section 9(a), 9(b) and 9(c) bonds are tax-supported general obligation bonds and are backed by the full faith, credit, and taxing power of the Commonwealth.

Section 9(d) bonds are revenue bonds and are not backed by the full faith, credit and taxing power of the Commonwealth. These bonds are not general obligation bonds and are not deemed to constitute a legal liability of the Commonwealth. This debt may be supported by State appropriations in whole or in part, as in the case of certain debt of the VPA (Component Unit), VPBA (Primary Government), ITA (Component Unit) and VCBA (Component Unit). Other 9(d) revenue bonds are payable from general revenues of the component units, or from revenues of specific revenue-producing capital projects such as the teaching hospitals, dormitories, student centers, and dining halls at the various State colleges and universities (Component Units). Additionally, the 9(d) Transportation Bonds (Primary Government) are payable solely from revenues or earnings, and other available sources of funds appropriated by the General Assembly. The 9(d) Pocahontas Parkway Association Bonds (Primary Government) are special, limited obligations of the Association, secured by a gross revenue pledge and payable solely from revenues prior to payment of current expenses and from monies held in certain funds and accounts held in trust.

Certain 9(d) bonds are considered, with 9(a), 9(b), and 9(c) bonds, to be tax-supported debt of the

The following schedule presents the total long-term liabilities of the Commonwealth as reported on the Combined Balance Sheet.

Total Long-Term Liabilities

June 30, 1999

(Dollars in Thousands)

Primary Government:

General Obligation Bonds (5):

General Long-Term Debt Account Group:	
9(b) Transportation Facilities	\$ 63,835
9(b) Public Facilities	470,930
9(c) Parking Facilities	11,660
9(c) Transportation Facilities (1)	141,541
Bond Anticipation Notes Payable	<u>20,000</u>
Total General Obligation Bonds	<u>707,966</u>

Non-General Obligation Bonds - 9(d):

Transportation Debt	736,960
Pocahontas Parkway Association Bonds (1) (4)	381,706
Virginia Public Building Authority (1)	<u>965,886</u>
Total Non-General Obligation Bonds	<u>2,084,552</u>

Other Long-Term Obligations:

Pension Liability	138,107
Compensated Absences	271,576
Long-Term Capital Lease Obligations	221,999
Long-Term Regional Jail Financing Payable	62,635
Notes Payable	12,325
Installment Purchase Obligations	27,457
Other Liabilities	<u>2,882</u>
Total Other Long-Term Obligations	<u>736,981</u>

Total Primary Government 3,529,499

Component Units:

General Obligation Bonds (5):

Higher Education Fund - 9(c) Bonds (1)	387,963
Bond Anticipation Notes Payable	<u>13,000</u>
Total General Obligation Bonds	<u>400,963</u>

Non-General Obligation Bonds:

Higher Education Institutions - 9(d) (4)	390,738
Virginia College Building Authority	248,190
Innovative Technology Authority	12,195
Virginia Port Authority (2)	203,360
Virginia Housing Development Authority (1) (3)	5,507,684
Virginia Resources Authority (1) (3)	326,641
Virginia Public School Authority (1) (3)	1,701,170
Hampton Roads Sanitation District Commission (4)	179,752
Virginia Equine Center Foundation (4)	6,930
Virginia Biotechnology Research Park Authority (6)	46,865
Medical College of Virginia Hospitals Authority 9(d)(4)	<u>93,040</u>

Total Non-General Obligation Bonds 8,716,565

Other Long-Term Obligations:

Pension Liability	72,789
Compensated Absences	152,177
Long-Term Capital Lease Obligations	24,216
Notes Payable	555,947
Installment Purchase Obligations	26,714
Other Liabilities (4)	<u>18,014</u>

Total Other Long-Term Obligations 849,857

Total Component Units 9,967,385

Total Long-Term Liabilities \$ 13,496,884

1. Net of unamortized discounts.
2. This debt includes \$96.5 million that is not supported by taxes.
3. This debt is not supported by taxes; however, \$1.504 billion from VHDA, \$514.5 million from VPSA, and \$326.6 million from VRA is considered moral obligation debt.
4. This debt is not supported by taxes.
5. Total general obligation debt of the Commonwealth is \$1.109 billion.
6. This debt includes \$16.7 million that is not supported by taxes.

Primary Government

Transportation Facilities Bonds

Transportation Facilities Bonds include \$63,835,000 of 9(b) general obligation bonds, \$141,540,631 of 9(c) general obligation bonds, and \$736,960,000 of 9(d) revenue bonds. Principal and interest requirements for the current year totaled \$82,068,722. The Section 9(b) transportation facilities bonds represent Powhite Refunding Bonds, Series 1993A, which were issued to refund Series 1986 9(c) Transportation Facilities Bonds. The Section 9(c) Transportation Facilities Bonds were issued to fund the construction, improvement and operation of the Omer L. Hirst - Adelard L. Brault Expressway and the George P. Coleman Bridge. The Section 9(d) Transportation Facilities Bonds were issued to fund the construction of State Route 28, U.S. Route 58, the Northern Virginia Transportation District Program, and the Oak Grove Connector (Chesapeake). The interest rates for these bonds range from 2.4 percent to 7.25 percent and the issuance dates range from June 28, 1989, to February 26, 1998. The following schedules detail the annual funding requirements necessary to amortize Transportation Facilities 9(b), 9(c) and 9(d) bonds:

9(b) TRANSPORTATION FACILITIES BONDS Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 3,535,000	\$ 3,094,813	\$ 6,629,813
2001	3,715,000	2,935,223	6,650,223
2002	3,890,000	2,762,165	6,652,165
2003	4,115,000	2,575,993	6,690,993
2004	4,310,000	2,375,850	6,685,850
2005-2012	<u>44,270,000</u>	<u>9,842,533</u>	<u>54,112,533</u>
Total	<u>\$ 63,835,000</u>	<u>\$ 23,586,577</u>	<u>\$ 87,421,577</u>

9(c) TRANSPORTATION FACILITIES BONDS Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 8,884,000	\$ 6,101,749	\$ 14,985,749
2001	9,204,000	5,808,876	15,012,876
2002	9,589,000	5,421,533	15,010,533
2003	9,804,000	5,170,570	14,974,570
2004	10,234,000	4,837,845	15,071,845
2005-2021	<u>102,775,000</u>	<u>34,356,431</u>	<u>137,131,431</u>
Less:			
Unamortized Discount	<u>(8,949,369)</u>	<u>-</u>	<u>(8,949,369)</u>
Total	<u>\$ 141,540,631</u>	<u>\$ 61,697,004</u>	<u>\$ 203,237,635</u>

9(d) TRANSPORTATION FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 20,770,000	\$ 39,698,463	\$ 60,468,463
2001	21,885,000	38,573,948	60,458,948
2002	22,975,000	37,483,400	60,458,400
2003	24,145,000	36,305,690	60,450,690
2004	25,460,000	34,989,448	60,449,448
2005-2036	621,725,000	309,818,481	931,543,481
Total	\$ 736,960,000	\$ 496,869,430	\$ 1,233,829,430

Pocahontas Parkway Association Bonds

The Pocahontas Parkway Association Bonds include \$168,879,735 of Series 1998A revenue bonds, \$156,851,631 of Series 1998B capital appreciation bonds, \$37,975,125 of Series 1998C capital appreciation bonds, and \$18,000,000 of Series 1998D toll road revenue bonds. These bonds were issued to finance the Route 895 Connector Toll Road Project. The interest rates on the Series 1998A bonds range from 5.0 percent to 5.5 percent and the issuance date was July 9, 1998. The current year interest paid on all debt, net of approximately \$258,012 capitalized, approximated \$5,727,796.

The Series 1998B capital appreciation bonds were issued on July 9, 1998, in the principal amount of \$148,310,626 and the maturity value of \$690,200,000. These bonds mature in annual installments on August 15, in the years 2012 through 2025 and 2029 through 2035. Series 1998B bonds were issued to yield approximately 5.50 percent to 5.95 percent. Principal accreted for the year ended June 30, 1999, was \$8,541,005.

The Series 1998C capital appreciation bonds were issued on July 9, 1998, in the principal amount of \$35,867,236 and the maturity value of \$137,300,000. These bonds mature in annual installments on August 15, in the years 2005 through 2035. Series 1998C bonds were issued to yield approximately 5.40 percent to 6.25 percent. Principal accreted for the year ended June 30, 1999, was \$2,107,889.

The Series 1998D toll road revenue bonds were issued on July 9, 1998, in the principal amount of \$18,000,000 to the Commonwealth Transportation Board. The Series 1998D bond was issued in exchange for \$18,000,000 loaned to the Association for paying certain non-construction costs of the Project, and matures on August 15, 2028. The Series 1998D bond bears interest at a floating rate equal to the Department's Transportation Trust Fund Earnings Rate, compounded semiannually. The Series 1998D bond bears interest from the date that amounts are advanced from the Series 1998D Bond Proceeds Account for application to non-construction costs of the Project on the amount of such advances until paid. Also earnings on the Series 1998D Bond Proceeds Account are transferred monthly to the Department. The original proceeds disbursed for non-construction costs, as of June 30, 1999, were \$11,594,853 and accrued interest was \$280,820. The monthly interest rate at June 30, 1999, was 5.06 percent.

The following schedule details the annual funding requirements necessary to repay the Series 1998A, 1998B, 1998C and 1998D bonds:

9(d) POCAHONTAS PARKWAY ASSOCIATION BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ -	\$ 9,121,250	\$ 9,121,250
2001	-	9,121,250	9,121,250
2002	-	9,121,250	9,121,250
2003	-	9,121,250	9,121,250
2004	-	9,121,250	9,121,250
2005 - 2036	1,015,200,000	165,179,125	1,180,379,125
Less:			
Unamortized Discount	(820,265)	-	(820,265)
Unaccreted Capital Appreciation			
Bonds	(632,673,244)	-	(632,673,244)
Total	\$ 381,706,491	\$ 210,785,375	\$ 592,491,866

Public Facilities Bonds

Section 9(b) general obligation bonds consist of Public Facilities Bonds, Series 1993 A and B, Series 1994, Series 1996, Series 1996 refunding, Series 1997, Series 1998 refunding, and Series 1998 bonds. Series 1993, 1994, 1996, 1997 and 1998 bonds were issued to fund construction projects for higher educational institutions, mental health, and park facilities. Principal and interest requirements for the current year totaled \$54,051,453. The interest rates for these bonds range from 3.2 percent to 6.4 percent and the issuance dates range from January 1, 1993, to September 1, 1998. The following schedule details the annual funding requirements necessary to repay these bonds:

9(b) PUBLIC FACILITIES BONDS
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 29,595,000	\$ 23,797,609	\$ 53,392,609
2001	29,625,000	22,289,703	51,914,703
2002	29,665,000	20,765,301	50,430,301
2003	29,690,000	19,244,331	48,934,331
2004	29,725,000	17,712,259	47,437,259
2005 - 2017	322,630,000	95,514,916	418,144,916
Total	\$ 470,930,000	\$ 199,324,119	\$ 670,254,119

Parking Facilities Bonds

Section 9(c) general obligation bonds consist of Parking Facilities Bonds, Series 1991A, Series 1993B refunding bonds, Series 1996 and Series 1996 refunding bonds. Series 1991A bonds were issued to fund the State Corporation Commission and the Bank Street parking decks operated by the Department of General Services. Series 1993B bonds were issued to advance refund outstanding 1991A series bonds. Series 1996 bonds were issued to fund the renovation of the Seventh and Marshall Street parking deck. The interest rates for these bonds range from 3.5 percent to 6.0 percent and

the issuance dates range from December 1, 1991, to June 6, 1996. Current year principal and interest requirements totaled \$1,245,013. The following schedule details the annual funding requirements necessary to repay these bonds:

9(c) PARKING FACILITIES BONDS Debt Service Requirements to Maturity			
Maturity	Principal	Interest	Total
2000	\$ 650,000	\$ 590,546	\$ 1,240,546
2001	685,000	553,791	1,238,791
2002	720,000	514,560	1,234,560
2003	765,000	479,795	1,244,795
2004	800,000	442,733	1,242,733
2005-2016	8,040,000	2,106,398	10,146,398
Total	<u>\$ 11,660,000</u>	<u>\$ 4,687,823</u>	<u>\$ 16,347,823</u>

Virginia Public Building Authority

The Virginia Public Building Authority (VPBA) has issued Section 9(d) revenue bonds for the purpose of constructing, improving, furnishing, maintaining, and acquiring public buildings for the use of the Commonwealth and also to reimburse localities, regional jail authorities or other combination of localities under the Regional Jail Financing Program. The interest rates for these bonds range from 2.5 percent to 7.375 percent and the issuance dates range from October 31, 1988, to May 1, 1999. Current year principal and interest requirements totaled \$93,424,484. The following schedule details the annual funding requirements necessary to repay these bonds:

9(d) VIRGINIA PUBLIC BUILDING AUTHORITY BONDS Debt Service Requirements to Maturity			
Maturity	Principal	Interest	Total
2000	\$ 52,575,000	\$ 44,880,631	\$ 97,455,631
2001	58,085,000	42,576,952	100,661,952
2002	61,080,000	39,488,933	100,568,933
2003	62,070,000	36,258,758	98,328,758
2004	65,375,000	32,887,397	98,262,397
2005 - 2020	705,150,000	210,174,763	915,324,763
Less:			
Unamortized Discount	<u>(38,449,392)</u>	<u>-</u>	<u>(38,449,392)</u>
Total	<u>\$ 965,885,608</u>	<u>\$ 406,267,434</u>	<u>\$ 1,372,153,042</u>

Regional Jail Financing Program

The Regional Jail Financing Program of the Commonwealth of Virginia Treasury Board was created during the 1993 Session of the General Assembly to establish a method of reimbursing localities, regional jail authorities or other combination of localities for a portion of the capital and financing costs of a jail project, made pursuant to Sections 53.1-80, 53.1-81, or 53.1-82 of the *Code of Virginia*. The General Assembly, upon recommendation from the Department of Planning and Budget, may determine to reimburse localities for approved capital costs over time through a contractual Reimbursement Agreement between the localities or authority and the Treasury Board. The amount of

reimbursable capital costs is determined by the Board of Corrections. If approved for reimbursement over time, the Treasury Board determines the amount of reimbursable financing costs and calculates the periodic reimbursement payments.

In 1996, the General Assembly adopted legislation that authorized funding of jail project reimbursements through bonds issued by the Virginia Public Building Authority (VPBA). As of June 30, 1998, all future jail reimbursements were approved for funding through the VPBA as opposed to the Treasury Board. All reimbursements, whether up front or over time, are subject to appropriation by the General Assembly. The following schedule details the annual funding requirements necessary to repay these obligations:

REGIONAL JAILS FINANCING Financial Obligations to Maturity			
Calendar Year	Capital	Financing	Total
Obligations	Costs	Costs	
2000	\$ 2,964,483	\$ 3,443,762	\$ 6,408,245
2001	3,065,306	3,340,900	6,406,206
2002	3,171,184	3,230,989	6,402,173
2003	3,307,123	3,107,755	6,414,878
2004	3,433,126	2,973,790	6,406,916
2005-2015	46,694,142	18,735,620	65,429,762
Total	<u>\$ 62,635,364</u>	<u>\$ 34,832,816</u>	<u>\$ 97,468,180</u>

Component Units

Higher Education Institution Bonds

Higher Educational Institution Bonds are comprised of both 9(c) general obligation bonds and 9(d) revenue bonds. Section 9(d) bonds are from several sources as shown on the following schedule (in thousands):

College and university bonds backed by pledge of general revenue or revenue from specific revenue-producing capital projects	\$ 295,458
College and university debt backed exclusively by pledged revenues of an institution	95,280
Total Higher Educational Institutional 9(d) debt	<u>\$ 390,738</u>

The interest rates for these bonds range from 2.4 percent to 9.25 percent and the issuance dates range from July 17, 1973, to June 2, 1999. The following schedules detail the annual funding requirements necessary to amortize Higher Educational Institution 9(c) and 9(d) bonds:

9(c) HIGHER EDUCATIONAL INSTITUTION BONDS			
Debt Service Requirements to Maturity			
Maturity	Principal	Interest	Total
2000	\$ 34,148,000	\$ 18,503,713	\$ 52,651,713
2001	35,677,000	17,031,764	52,708,764
2002	33,957,000	15,468,128	49,425,128
2003	31,822,000	13,966,251	45,788,251
2004	30,692,000	12,605,948	43,297,948
2005-2022	229,041,000	64,890,709	293,931,709
Less:			
Unamortized			
Discount	(7,374,000)	-	(7,374,000)
Total	\$ 387,963,000	\$ 142,466,513	\$ 530,429,513

9(d) HIGHER EDUCATIONAL INSTITUTION BONDS			
Debt Service Requirements to Maturity			
Maturity	Principal	Interest	Total
2000	\$ 14,244,888	\$ 20,120,914	\$ 34,365,802
2001	15,017,605	19,475,604	34,493,209
2002	15,720,404	19,048,612	34,769,016
2003	16,458,288	17,937,966	34,396,254
2004	18,456,259	17,157,877	35,614,136
2005-2024	310,840,363	137,143,192	447,983,555
Total	\$ 390,737,807	\$ 230,884,165	\$ 621,621,972

9(d) VIRGINIA COLLEGE BUILDING AUTHORITY BONDS			
Debt Service Requirements to Maturity			
(Commonwealth Debt Only - See Note 1B)			
Maturity	Principal	Interest	Total
2000	\$ 36,630,000	\$ 10,543,777	\$ 47,173,777
2001	39,155,000	9,802,660	48,957,660
2002	35,315,000	8,149,095	43,464,095
2003	22,530,000	6,598,185	29,128,185
2004	13,995,000	5,537,335	19,532,335
2005-2019	100,565,000	38,957,186	139,522,186
Total	\$ 248,190,000	\$ 79,588,238	\$ 327,778,238

Innovative Technology Authority

The Innovative Technology Authority (ITA) has issued Taxable Lease Revenue Bonds, Series 1989, and Series 1997 refunding. The Series 1989 bonds were issued to cover a portion of the costs related to the construction of a software development center and office building. Series 1997 bonds were issued to advance refund \$11.2 million of the outstanding 1989 bonds.

The 1989 bonds had an average interest rate of 10.3 percent and the 1997 bonds have an average interest rate of 7.4 percent. The bonds were issued on March 1, 1989, and May 1, 1997, respectively. The following

schedule details the annual funding requirements necessary to amortize ITA bonds:

9(d) INNOVATIVE TECHNOLOGY AUTHORITY BONDS			
Debt Service Requirements to Maturity			
Maturity	Principal	Interest	Total
2000	\$ 540,000	\$ 889,414	\$ 1,429,414
2001	535,000	853,288	1,388,288
2002	530,000	816,801	1,346,801
2003	625,000	780,337	1,405,337
2004	620,000	736,587	1,356,587
2005-2014	9,345,000	4,205,151	13,550,151
Total	\$ 12,195,000	\$ 8,281,578	\$ 20,476,578

Governmental Funds – Discrete Component Units

Virginia Port Authority

The Virginia Port Authority (VPA) has issued Section 9(d) revenue bonds and notes pursuant to powers provided to its Board of Commissioners by the *Code of Virginia*. The interest rates for these bonds range from 4.2 percent to 6.0 percent and the issuance dates range from October 23, 1996, to April 2, 1998. Series 1998 bonds were issued to advance refund \$71.1 million of the outstanding 1988 bonds. The following schedule details the annual funding requirements necessary to amortize VPA bonds:

9(d) VIRGINIA PORT AUTHORITY DEBT			
Debt Service Requirements to Maturity			
Maturity	Principal	Interest	Total
2000	\$ 5,730,000	\$ 10,839,497	\$ 16,569,497
2001	10,245,000	10,583,794	20,828,794
2002	10,710,000	10,119,979	20,829,979
2003	11,225,000	9,612,254	20,837,254
2004	11,760,000	9,074,200	20,834,200
2005-2027	153,690,000	86,609,708	240,299,708
Total	\$ 203,360,000	\$ 136,839,432	\$ 340,199,432

Proprietary Funds – Discrete Component Units

The Virginia Housing Development Authority (VHDA), the Virginia Resources Authority (VRA) and the Virginia Public School Authority (VPSA) issued Section 9(d) revenue bonds. The interest rates for these bonds range from 2.1 percent to 10.88 percent and the origination dates range from December 1, 1973, to June 29, 1999. The following schedules detail the annual funding requirements necessary to amortize these bonds:

9(d) VIRGINIA HOUSING DEVELOPMENT AUTHORITY BONDS Debt Service Requirements to Maturity

Maturity	Principal (1)	Interest	Total
2000	\$ 831,013,985	\$ 305,772,292	\$ 1,136,786,277
2001	155,663,974	281,960,717	437,624,691
2002	171,983,413	273,160,380	445,143,793
2003	188,516,813	263,224,634	451,741,447
2004	196,986,863	252,187,929	449,174,792
2005-2046	4,001,151,822	2,755,757,129	6,756,908,951
Less:			
Unamortized Discount	(37,633,000)	-	(37,633,000)
Total	<u>\$ 5,507,683,870</u>	<u>\$ 4,132,063,081</u>	<u>\$ 9,639,746,951</u>

(1) The 2000 principal amount includes \$697 million for which long-term maturity dates have not been set.

9(d) VIRGINIA RESOURCES AUTHORITY BONDS Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 22,825,000	\$ 18,229,693	\$ 41,054,693
2001	11,430,000	17,147,056	28,577,056
2002	11,795,000	15,913,356	27,708,356
2003	12,085,000	15,519,683	27,604,683
2004	12,295,000	15,101,548	27,396,548
2005-2030	267,585,000	155,809,174	423,394,174
Less:			
Unamortized Discounts and Issuance Expenses	(8,261,315)	-	(8,261,315)
Unaccreted Capital Appreciation Bonds	(3,112,336)	-	(3,112,336)
Total	<u>\$ 326,641,349</u>	<u>\$ 237,720,510</u>	<u>\$ 564,361,859</u>

9(d) VIRGINIA PUBLIC SCHOOL AUTHORITY BONDS Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 111,115,000	\$ 88,591,751	\$ 199,706,751
2001	113,580,000	83,425,900	197,005,900
2002	112,745,000	77,238,963	189,983,963
2003	110,645,000	71,478,479	182,123,479
2004	112,490,000	65,732,361	178,222,361
2005-2020	1,175,610,000	386,791,339	1,562,401,339
Less:			
Deferral on Debt			
Defeasance	(35,015,200)	-	(35,015,200)
Total	<u>\$ 1,701,169,800</u>	<u>\$ 773,258,793</u>	<u>\$ 2,474,428,593</u>

The Hampton Roads Sanitation District Commission issued bonds under a Master Trust Indenture and a Trust Agreement dated December 1, 1993, and December 1, 1995. The original interest cost for these bonds ranged from 4.5 percent to 5.07 percent. The following schedule details the annual funding requirements necessary to amortize these bonds:

HAMPTON ROADS SANITATION DISTRICT COMMISSION Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 12,886,000	\$ 8,221,000	\$ 21,107,000
2001	13,451,000	7,654,000	21,105,000
2002	14,021,000	7,048,000	21,069,000
2003	14,635,000	6,402,000	21,037,000
2004	10,626,000	5,824,000	16,450,000
2005-2024	114,133,000	42,045,000	156,178,000
Total	<u>\$ 179,752,000</u>	<u>\$ 77,194,000</u>	<u>\$ 256,946,000</u>

The Virginia Equine Center Foundation issued Series 1993 Industrial Development Authority (IDA) of Rockbridge County Virginia Horse Center Revenue Bonds. Coupon interest rates range from 4.0 percent to 6.4 percent. The Center also issued Series 1992 IDA of Rockbridge County Virginia Horse Center Revenue Bonds. Coupon interest rates range from 6.0 percent to 9.0 percent.

VIRGINIA EQUINE CENTER FOUNDATION Debt Service Requirements to Maturity

Maturity	Principal(1)
2000	\$ 625,000
2001	660,000
2002	695,000
2003	725,000
2004	610,000
2005-2009	3,615,000
Total	<u>\$ 6,930,000</u>

(1) Interest information is not available.

The Virginia Biotechnology Research Park Authority issued Series 1996, 1998, 1999A, and 1999B Commonwealth of Virginia Lease Revenue bonds. Coupon interest rates range from 4.0 percent to 6.4 percent.

VIRGINIA BIOTECHNOLOGY RESEARCH PARK AUTHORITY
Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 1,440,000	\$ 2,343,000	\$ 3,783,000
2001	1,580,000	2,435,000	4,015,000
2002	1,660,000	2,360,000	4,020,000
2003	1,745,000	2,278,000	4,023,000
2004	1,830,000	2,190,000	4,020,000
2005-2019	<u>38,610,000</u>	<u>16,630,000</u>	<u>55,240,000</u>
Total	<u>\$ 46,865,000</u>	<u>\$ 28,236,000</u>	<u>\$ 75,101,000</u>

The Medical College of Virginia Hospitals Authority issued Series 1998 bonds with interest rates of 4.30 percent to 5.25 percent. The Authority also has Series 1994 bonds that were transferred from Virginia Commonwealth University. The interest rates for these bonds range from 2.4 percent to 5.8 percent.

9(d) MEDICAL COLLEGE OF VIRGINIA HOSPITALS
AUTHORITY BONDS

Debt Service Requirements to Maturity

Maturity	Principal	Interest	Total
2000	\$ 5,560,000	\$ 4,335,041	\$ 9,895,041
2001	5,220,000	4,119,611	9,339,611
2002	5,470,000	3,896,364	9,366,364
2003	5,695,000	3,656,260	9,351,260
2004	8,010,000	3,398,560	11,408,560
2005-2023	<u>63,085,000</u>	<u>36,875,033</u>	<u>99,960,033</u>
Total	<u>\$ 93,040,000</u>	<u>\$ 56,280,869</u>	<u>\$ 149,320,869</u>

Total principal outstanding at June 30, 1999, on all Component Unit bonds amounted to \$9.1 billion.

The following schedule summarizes the changes in long-term liabilities reflected in the General Long-Term Debt Account Group:

Schedule of Changes in General Long-Term Debt Account Group

(Dollars in Thousands)

	Balance July 1, 1998	Issuances and Other Increases	Retirements and Other Decreases	Balance June 30, 1999
Long-Term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth (Primary Government)				
General Obligation Bonds - 9(b), and 9(c):				
Public Facilities Bonds	\$ 441,265	\$ 59,235	\$ (29,570)	\$ 470,930
Parking Facilities Bonds, Series 1991A	12,280	-	(620)	11,660
Transportation Facilities Bonds (Net of Unamortized Discount of \$8,949,369)	215,822	1,588	(12,034)	205,376
Bond Anticipation Notes Payable	60,000	20,000	(60,000)	20,000
Total General Obligation Bonds	729,367	80,823	(102,224)	707,966
Other Long-Term Debt:				
Pension Liability	84,335	48,350	-	132,685
Long-Term Capital Lease Obligations	224,484	8,329	(12,215)	220,598
Long-Term Portion of the Liability for Compensated Absences	254,174	5,627	-	259,801
Installment Purchases	6,736	10,469	(1,042)	16,163
Total Long-Term Debt Bearing the Pledge of the Full Faith and Credit of the Commonwealth	1,299,096	153,598	(115,481)	1,337,213
Long-Term Debt Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth (Primary Government)				
Non-General Obligation Bonds - 9(d)				
Transportation Facilities Bonds	756,700	-	(19,740)	736,960
Virginia Public Building Authority Long-Term Debt (Net of Unamortized Discount of \$38,449,392)	942,656	72,630	(49,400)	965,886
Long-Term Regional Jails Financing Payable	65,510	-	(2,875)	62,635
Notes Payable - Transportation	12,325	-	-	12,325
Other	-	2,882	-	2,882
Total Long-Term Debt Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth	1,777,191	75,512	(72,015)	1,780,688
Total General Long-Term Debt Account Group (Primary Government) [1]	<u>\$ 3,076,287</u>	<u>\$ 229,110</u>	<u>\$ (187,496)</u>	<u>\$ 3,117,901</u>
Long-Term Debt Not Bearing the Pledge of the Full Faith and Credit of the Commonwealth (Component Units)				
Virginia Port Authority:				
Long-Term Debt	\$ 206,150	\$ -	\$ (2,790)	\$ 203,360
Pension Liability	216	94	-	310
Installment Purchase Obligations	4,208	-	(774)	3,434
Long-Term Portion of the Liability for Compensated Absences	638	-	(41)	597
Other Liabilities	838	-	(11)	827
Virginia Economic Development Partnership:				
Pension Liability	329	195	-	524
Installment Purchase Obligations	245	134	-	379
Long-Term Portion of the Liability for Compensated Absences	891	-	(85)	806
Total General Long-Term Debt Account Group (Component Units) [1]	<u>\$ 213,515</u>	<u>\$ 423</u>	<u>\$ (3,701)</u>	<u>\$ 210,237</u>

[1] These amounts will be provided as follows:

	Primary Government	Component Units
Amount to be Provided by the Commonwealth	\$ 1,237,359	\$ -
Amount to be Provided by Other Sources	1,717,930	200,596
Amount to be Provided for Pension Liability	132,685	834
Amount to be Provided for BANS	20,000	-
Amount Available for Retirement of Long-Term Debt	9,927	8,807
Total	<u>\$ 3,117,901</u>	<u>\$ 210,237</u>

Bond Defeasance

On March 3, 1999, the University of Virginia, on behalf of the Medical Center, issued \$51,985,000 in Series 1999 A General Revenue Pledge Bonds to advance refund \$55,875,000 of outstanding Series E Hospital Revenue Refunding Bonds. The net proceeds, together with the funds available in the depreciation reserve fund, were used to purchase U. S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the 1989 Series E Revenue Refunding Bonds. The refunded Series E Bonds were redeemed on June 1, 1999. Though the advanced refunding resulted in the recognition of an accounting loss of \$2,926,000 for the year ended June 30, 1999, the Medical Center in effect reduced its aggregate debt service by \$13,664,000 over the next fourteen years. This represents a net present value savings of \$5,476,000.

During the year ended June 30, 1999, the Virginia Resources Authority, in conjunction with certain advance refunding transactions entered into by the borrower, in-substance defeased the 1995 Series A Water and Sewer System Revenue Bonds. In order to accomplish this in-substance defeasance, the borrower and the Authority jointly established an escrow deposit, which, together with earnings from investments thereof, will be sufficient to pay principal and interest when due on the bonds. The resulting net gain from the refunding of the loan receivable and in-substance defeasance of the bonds payable was not material to the accompanying financial statements.

Government Accounting Standards Board Statement No. 7, Advance Refundings Resulting in Defeasance of Debt, provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 1999, there were \$427.3 million in bonds from Primary Government that have been refunded and defeased in-substance from the General Long-Term Debt Account Group by placing existing assets and the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments. In addition, there were \$465.3 million in bonds outstanding considered defeased from the Proprietary Component Unit Fund, \$62.8 million from the Higher Education Fund, and \$15.2 million from the Governmental Component Unit Fund.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986, calculate and rebate arbitrage earnings to the Federal government. The U. S. Treasury has issued regulations on calculating the rebate amount and complying with the provisions of the Tax Reform Act of 1986. Governmental issuers must comply with the rebate regulations in order for their bonds to maintain tax-exempt status. The regulations require the excess of the aggregate amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, to be rebated to the Federal government. Income earned on excess earnings is also subject to rebate. Rebate payments, if

required, are due at least once every five years over the life of the bonds. Some Commonwealth bonds may be exempt from the rebate requirements if they meet statutory exceptions per the regulations. Governmental issuers may also elect, on or before the date of the bond issue, to pay a penalty in lieu of rebate if they do not meet certain expenditure schedules. If such an election is made and if such issuer meets the expenditure schedule, the issuer retains any arbitrage earnings. Rebate and penalty payments are calculated and paid by the Commonwealth as required by law on bond issues that do not meet the statutory exceptions.

Bonds issued by the Virginia Public Building Authority and the Virginia College Building Authority are issued under Article X, Section 9(d) of the Constitution of Virginia. Any amounts remitted to the Federal government for rebate liability for bonds issued under Article X, Section 9(d) are paid from excess investment earnings or from project revenues and not from the general fund of the Commonwealth. During the year, the Commonwealth did not incur any rebate liability for bonds issued by these authorities; therefore, no payments were made to the Federal government.

In most cases, rebate liability on bonds of the Virginia Public School Authority (Component Unit) is payable from local issuers whose local school bonds were purchased by the VPSA. During the year, \$59,818 was paid to the Federal government for rebate on various VPSA School Financing Bonds.

Capital Leases

The Commonwealth leases buildings and equipment under various agreements that are accounted for as capital leases. The lease agreements are for various terms and all leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly.

Gross minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 1999, were:

	Primary Government	Component Units	Total Reporting Entity
2000	\$ 25,672,487	\$ 3,888,182	\$ 29,560,669
2001	25,090,141	3,556,075	28,646,216
2002	24,454,651	2,525,979	26,980,630
2003	23,337,401	2,472,922	25,810,323
2004	22,696,492	2,210,254	24,906,746
After 2004	<u>258,149,012</u>	<u>23,969,898</u>	<u>282,118,910</u>
Total Gross Minimum Lease Payments	379,400,184	38,623,310	418,023,494
Less: Amount Representing Executory Costs	<u>5,139,616</u>	<u>13,387</u>	<u>5,153,003</u>
Net Minimum Lease Payments	374,260,568	38,609,923	412,870,491
Less: Amount Representing Interest	<u>152,261,622</u>	<u>14,393,880</u>	<u>166,655,502</u>
Present Value of Net Minimum Lease Payments	<u>\$ 221,998,946</u>	<u>\$ 24,216,043</u>	<u>\$ 246,214,989</u>

At June 30, 1999, fixed assets purchased under capital leases were included in property, plant, and equipment as follows. The amounts are net of accumulated depreciation where applicable. For a portion of these assets, ownership will pass to the Commonwealth at the end of the lease term.

Fund/Account Group	Buildings	Equipment	Total
Primary Government:			
General Fixed Assets Account Group	\$ 239,179,148	\$ 1,129,959	\$ 240,309,107
Internal Service Fund	<u>973,982</u>	<u>-</u>	<u>973,982</u>
Total Primary Government	<u>240,153,130</u>	<u>1,129,959</u>	<u>241,283,089</u>
Component Units:			
Proprietary	-	1,390,886	1,390,886
Higher Education Fund	<u>20,718,248</u>	<u>10,517,903</u>	<u>31,236,151</u>
Total Component Units	<u>20,718,248</u>	<u>11,908,789</u>	<u>32,627,037</u>
Total Capital Lease Assets	<u>\$ 260,871,378</u>	<u>\$ 13,038,748</u>	<u>\$ 273,910,126</u>

Notes Payable

Notes Payable consist of several items as shown in the following schedule (dollars shown in thousands):

Primary Government	
Transportation Note (1)	\$ 12,325
Installment Notes	<u>27,457</u>
Total Primary Government	<u>39,782</u>
Component Units	
Higher Education Notes	112,187
Virginia Housing Development Authority	360,650
Virginia Public School Authority	83,110
Installment Notes	<u>26,714</u>
Total Component Units	<u>582,661</u>
Total Notes Payable	<u>\$ 622,443</u>

(1) Reflected in the General Long-Term Debt Account Group.

The Transportation (Primary Government) Note listed above represents an interest free note payable to Fairfax County, Virginia, of \$4,325,000 which was issued pursuant to the State Revenue Bond Act, Article 5, Title 33.1, Code of Virginia to pay for the acquisition and construction of the Omer L. Hirst - Adelard L. Brault Expressway. This note is to be repaid on December 1, 2008. Additionally, the Virginia Department of Transportation (Primary Government) entered into an interest free note payable to Chesterfield County, Virginia, of \$8,000,000 for the repayment of the Powhite Parkway Extension Toll Road from surplus net revenues of the project prior to the retirement of all the bonds issued.

The Higher Education (Component Unit) notes payable amount of \$112,187,000 is comprised primarily of promissory notes with the Virginia College Building Authority (VCBA) to finance the construction of various higher education facilities. The principal amount of \$105,180,000 with interest rates ranging from 3.15 percent to 5.0 percent shall be paid semi-annually. The final principal payment is due in 2019. Virginia State University has a note payable of \$2,908,604, which is the result of a loan agreement with the U.S. Department of Housing and Urban Development to repair seven dormitories. The loan is to be repaid over 30 years at 3.0 percent interest per annum, and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. Norfolk State University received a loan granted by the Commonwealth of Virginia to cover cash deficit in Education and General and in Auxiliary. The Education and General portion of the deficit loan amounts to \$1,757,175 and is payable in installments of \$297,907 annually with final payment due in 2002. The Auxiliary loan amount of \$2,341,804 will be repaid in installments of \$462,173 with the final payment due in 2003.

The Virginia Housing Development Authority (Component Unit) notes of \$360,650,000 are issued to refund certain outstanding bonds of the Authority. The

notes bear a weighted average rate of 5.73 percent and have no fixed maturity date.

The Virginia Public School Authority (Component Unit) notes of \$83,110,000 are for the School Equipment Financing Notes Educational Technology program. The note proceeds were used to make grants to school divisions for the purchase of educational technology equipment. The notes will be repaid from appropriations to be made by the Virginia General Assembly from the Literary Fund.

Installment notes have been entered into by agencies and institutions of the Commonwealth. These agreements, other than those in the component units and certain institutions of higher education, contain nonappropriation clauses indicating that continuation of the installment note is subject to funding by the General Assembly. The General Long-Term Debt Account Group represents \$16,163,212 of the total. Presented in the following tables are repayment schedules for installment notes.

Installment Purchases - Primary Government

June 30, 1999

Maturity	Principal	Interest	Total
2000	\$ 9,347,005	\$ 1,077,162	\$ 10,424,167
2001	7,933,632	657,741	8,591,373
2002	6,096,607	319,328	6,415,935
2003	2,854,113	129,675	2,983,788
2004	1,062,476	29,608	1,092,084
After 2004	<u>163,168</u>	<u>6,037</u>	<u>169,205</u>
Total	<u>\$ 27,457,001</u>	<u>\$ 2,219,551</u>	<u>\$ 29,676,552</u>

Installment Purchases - Component Units

June 30, 1999

Maturity	Principal	Interest	Total
2000	\$ 7,250,118	\$ 1,375,855	\$ 8,625,973
2001	6,759,970	972,705	7,732,675
2002	5,026,268	619,202	5,645,470
2003	3,063,608	373,386	3,436,994
2004	2,536,644	211,302	2,747,946
After 2004	<u>2,077,810</u>	<u>100,268</u>	<u>2,178,078</u>
Total	<u>\$ 26,714,418</u>	<u>\$ 3,652,718</u>	<u>\$ 30,367,136</u>

20. OTHER LIABILITIES

The following table (reported in thousands of dollars) summarizes Other Liabilities as of June 30, 1999.

	General	Special Revenue	Debt Service	Enterprise	Internal Service	Trust and Agency	Total Primary Government June 30, 1999
Payable for Security Transactions	\$ -	\$ -	\$ -	\$ -	\$ 656	\$ 2,960,958	\$ 2,961,614
Lottery Prizes Payable	-	-	-	619,563	-	-	619,563
Due to Program Participants, Escrows, and Providers	-	-	-	11,716	-	294,845	306,561
Medicaid Payable	158,629	170,434	-	-	-	-	329,063
Children's Health Insurance Program Payable	486	946	-	-	-	-	1,432
Tuition Benefits Payable	-	-	-	214,888	-	-	214,888
Accrued Interest Payable	-	-	-	3,831	-	-	3,831
Tax Refunds Payable	135,255	-	-	-	-	-	135,255
Compensated Absences	567	349	-	-	-	1	917
Other Liabilities	-	500	169	46	144	13,840	14,699
Deposits Pending Distribution	2,206	1,039	-	-	-	8,139	11,384
Car Tax Refund Payable	23,885	-	-	-	-	-	23,885
Matured Debt Payable	-	-	41	-	-	-	41
Matured Principal and Interest Payable	-	-	-	-	-	-	-
Total Other Liabilities	<u>\$ 321,028</u>	<u>\$ 173,268</u>	<u>\$ 210</u>	<u>\$ 850,044</u>	<u>\$ 800</u>	<u>\$ 3,277,783</u>	<u>\$ 4,623,133</u>

	Component Units			Total Reporting Entity June 30, 1999
	Governmental Fund	Proprietary Fund	Higher Education	
Payable for Security Transactions	\$ -	\$ -	\$ -	\$ 2,961,614
Lottery Prizes Payable	-	-	-	619,563
Due to Program Participants, Escrows, and Providers	-	221,377	-	527,938
Medicaid Payable	-	-	-	329,063
Children's Health Insurance Program Payable	-	-	-	1,432
Tuition Benefits Payable	-	-	-	214,888
Accrued Interest Payable	-	150,833	-	154,664
Tax Refunds Payable	-	-	-	135,255
Compensated Absences	10	-	-	927
Other Liabilities	158	26,653	28,655	70,165
Deposits Pending Distribution	-	6	47,411	58,801
Car Tax Refund Payable	-	-	-	23,885
Matured Debt Payable	-	-	-	41
Matured Principal and Interest Payable	8,272	49	4,055	12,376
Total Other Liabilities	<u>\$ 8,440</u>	<u>\$ 398,918</u>	<u>\$ 80,121</u>	<u>\$ 5,110,612</u>

Lottery Prizes Payable

Jackpot prizes of the Virginia Lottery are payable in 20 or 25 annual installments. The first installment is paid on the day the prize is claimed. The present value of the outstanding jackpot prizes payable at June 30, 1999, is as follows:

	Balance
	June 30, 1999
Jackpot Prizes Payable:	
Due Within One Year	\$ 64,623,875
Due in Subsequent Years	865,062,125
Total	929,686,000
Less: Interest to Maturity	346,865,510
Net Present Value of Jackpot	
Prizes Payable	582,820,490
Other Prizes Payable	36,742,834
Total Lottery Prizes Payable	\$ 619,563,324

Medicaid Payable

Medicaid Payable represents services rendered but not billed by providers and potential liability resulting from cost reports not settled as of year-end. Providers subject to cost settlement are paid in the interim based on established per diem or diagnosis related group rates for services.

The Department of Medical Assistance Services (DMAS) estimates, based on past experience, the total amount of claims that will be paid from the Medicaid program in the future which relate to services provided before year end. At June 30, 1999, the estimated liability related to operations totaled \$329.0 million. Of this amount, \$158.6 million is reflected in the General Fund and \$170.4 million in the Federal Trust, Special Revenue Fund.

Children's Health Insurance Program Payable

DMAS estimates the total amount of claims that will be paid from the Children's Health Insurance program in the future which relate to services provided before year end. At June 30, 1999, the estimated liability related to operations totaled \$1.4 million. Of this amount, \$0.5 million is reflected in the General Fund and \$0.9 million in the Federal Trust, Special Revenue Fund.

Tuition Benefits Payable

The Higher Education Tuition Trust Fund administers the Virginia Prepaid Education Program (VPEP). VPEP offers contracts which, for actuarially determined amounts, provide for guaranteed full future tuition payments at State higher education institutions. The contract provisions also allow the benefits to be used for private or out-of-state institutions at a prorated amount based upon the amounts charged by the State's higher education institutions. Liabilities of \$214.9 million have been recorded on the balance sheet for the obligations owed to contract holders as of June 30, 1999.

The VPEP board authorized the first enrollment period during the fall of 1996. As of June 30, 1999, the actuarial present value of future tuition obligations is \$333.0 million, as compared to the actuarially determined market value of assets available of \$397.3 million. The actuarial assumptions used include a projected tuition increase of 7.0 percent and an average investment yield of 8.0 percent.

Tax Refunds Payable

Tax refunds payable represent refunds due on individual tax returns filed for the calendar year ended December 31, 1998, and on business tax returns filed for corporate fiscal years ending on or before June 30, 1999. The individual tax return filing deadline is May 1 of each year for the preceding calendar year. The corporate tax return filing deadline is the 15th day of the fourth month following the close of the corporate fiscal year.

Car Tax Refund Payable

During the year ended June 30, 1998, the General Assembly passed the Personal Property Tax Relief Act. Under the terms of this legislation, the Commonwealth will assume financial responsibility for the personal property taxes assessed by localities over a five-year period beginning in 1998. The amount reported on the balance sheet represents 27.5 percent of the 1999 personal property taxes assessed by the localities before June 30, 1999, and paid by the Commonwealth between July 1 and September 30, 1999.

The balance of Other Liabilities is spread among various other funds.

21. OTHER REVENUE

The following table (reported in thousands of dollars) summarizes Other Revenue as of June 30, 1999.

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Expendable Trust</u>	<u>Total Primary Government June 30, 1999</u>
Assessments and Receipts for Support of Special Services	\$ 323	\$ 60,311	\$ -	\$ -	\$ 15,558	\$ 76,192
Fines, Forfeitures, Court Fees, Penalties, and Escheats	129,280	127,549	-	-	5,872	262,701
Receipts from Cities, Counties, and Towns	10,074	86,841	-	-	-	96,915
Private Gifts, Grants, and Contracts	2	-	-	-	-	2
Sales of Property	2,955	13,518	-	-	-	16,473
Contributions	-	-	63	-	-	63
Pass Through Grants Received	-	-	-	-	-	-
Other	24,975	103,486	55	1,229	11,902	141,647
Total Other Revenue	<u>\$ 167,609</u>	<u>\$ 391,705</u>	<u>\$ 118</u>	<u>\$ 1,229</u>	<u>\$ 33,332</u>	<u>\$ 593,993</u>

	<u>Component Units</u>			<u>Total Reporting Entity June 30, 1999</u>
	<u>Governmental Fund</u>	<u>Proprietary Fund</u>	<u>Higher Education</u>	
Assessments and Receipts for Support of Special Services	\$ -	\$ -	\$ -	\$ 76,192
Fines, Forfeitures, Court Fees, Penalties, and Escheats	-	-	-	262,701
Receipts from Cities, Counties, and Towns	-	-	-	96,915
Private Gifts, Grants, and Contracts	-	-	256,392	256,394
Sales of Property	-	-	-	16,473
Contributions	53	936	-	1,052
Pass Through Grants Received	-	196,324	-	196,324
Other	765	23,922	44,119	210,453
Total Other Revenue	<u>\$ 818</u>	<u>\$ 221,182</u>	<u>\$ 300,511</u>	<u>\$ 1,116,504</u>

22. PRIZES AND CLAIMS

The following table (reported in thousands of dollars) summarizes Prizes and Claims Expense as of June 30, 1999.

			<u>Total Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>June 30, 1999</u>	<u>Proprietary Fund</u>	<u>June 30, 1999</u>
Lottery Prize Expense	\$ 497,461	\$ -	\$ 497,461	\$ -	\$ 497,461
Insurance Claims	68,105	450,895	519,000	16,339	535,339
Total Prizes and Claims	<u>\$ 565,566</u>	<u>\$ 450,895</u>	<u>\$ 1,016,461</u>	<u>\$ 16,339</u>	<u>\$ 1,032,800</u>

23. DEPRECIATION AND AMORTIZATION

The following table (reported in thousands of dollars) summarizes Depreciation and Amortization Expense as of June 30, 1999.

			<u>Total Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>June 30, 1999</u>	<u>Proprietary Fund</u>	<u>June 30, 1999</u>
Depreciation	\$ 7,660	\$ 14,092	\$ 21,752	\$ 49,575	\$ 71,327
Amortization	306	-	306	7,300	7,606
Total Depreciation and Amortization	<u>\$ 7,966</u>	<u>\$ 14,092</u>	<u>\$ 22,058</u>	<u>\$ 56,875</u>	<u>\$ 78,933</u>

24. OTHER EXPENSES

The following table (reported in thousands of dollars) summarizes Other Expenses as of June 30, 1999.

			<u>Total Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>June 30, 1999</u>	<u>Proprietary Fund</u>	<u>June 30, 1999</u>
Grants and Distributions to Localities	\$ 131	\$ 10,368	\$ 10,499	\$ 198,094	\$ 208,593
Expendable Equipment	1,036	2,945	3,981	333	4,314
Other	1,333	1,907	3,240	44,077	47,317
Total Other Expenses	<u>\$ 2,500</u>	<u>\$ 15,220</u>	<u>\$ 17,720</u>	<u>\$ 242,504</u>	<u>\$ 260,224</u>

25. OTHER NON-OPERATING REVENUE/EXPENSES

The following table (reported in thousands of dollars) summarizes Other Non-Operating Revenue/Expenses as of June 30, 1999.

			<u>Total Primary Government</u>	<u>Component Units</u>	<u>Total Reporting Entity</u>
	<u>Enterprise</u>	<u>Internal Service</u>	<u>June 30, 1999</u>	<u>Proprietary Fund</u>	<u>June 30, 1999</u>
Gain on Sale of Fixed Assets	\$ -	\$ 102	\$ 102	\$ -	\$ 102
Grants and Shared Revenue	-	-	-	598	598
Other	1,340	497	1,837	826	2,663
Total Other Non-Operating Revenue/Expenses	<u>\$ 1,340</u>	<u>\$ 599</u>	<u>\$ 1,939</u>	<u>\$ 1,424</u>	<u>\$ 3,363</u>

26. APPROPRIATION ACT TRANSFERS

Chapter 935, 1999 Acts of Assembly, requires certain amounts to be transferred to the General Fund during the year from the nongeneral funds. Some of these transfers are to reimburse the General Fund for expenses incurred on behalf of those nongeneral funds. Other transfers are mandated in order to shift amounts from nongeneral funds to the General Fund. These Appropriation Act transfers are included in Operating Transfer activity. Following is a schedule of the major items that make up Appropriation Act Transfers (dollars in millions):

	<u>Amount Transferred</u>
Lottery Profits	\$ 321.9
ABC Profits	36.4
Chesapeake Bay Improvement	6.0
Central Services Agencies	6.2
Contract Prisoners Special Revenue Fund	9.5
Public School Literary Fund	9.3
Housing of Illegal Aliens and Other Prisoners	5.4
Other Transfers	1.8
Total Appropriation Act Transfers	<u>\$ 396.5</u>

27. SEGMENT/CONDENSED FINANCIAL INFORMATION

Segment financial information for the Commonwealth's Enterprise Funds and condensed financial information for the Commonwealth's discretely presented component units are presented in the following schedules:

Condensed Financial Information - Component Units Governmental Fund

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	Virginia Port Authority	Virginia Economic Development Partnership	Virginia Outdoors Foundation	Total
Total Current Assets	\$ 84,955	\$ 2,121	\$ 1,748	\$ 88,824
Property, Plant, and Equipment	541,461	2,292	6,865	550,618
Amounts Available for Retirement of Long-Term Debt	8,807	-	-	8,807
Amount to be Provided for Retirement of Long-Term Debt	199,420	1,185	-	200,605
Amount to be Provided for Pension Liability	310	524	-	834
Total Assets	836,697	6,359	8,613	851,669
Total Current Liabilities	19,554	1,548	15	21,117
Total Long-Term Liabilities	208,528	1,538	-	210,066
Revenues	28,677	1,903	386	30,966
Current Expenditures	17,514	38,710	397	56,621
Capital Outlay Expenditures	49,166	-	-	49,166
Debt Service Expenditures	15,648	-	-	15,648
Total Transfers	27,240	36,646	-	63,886
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(26,411)	(161)	(11)	(26,583)

Selected Segment Information - Enterprise Funds

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	State Lottery Department	Department of Alcoholic Beverage Control	Risk Management	Local Choice Health Care	Virginia Industries for the Blind	Consolidated Laboratories
Operating Revenues	\$ 934,521	\$ 289,668	\$ 5,102	\$ 63,134	\$ 8,065	\$ 2,294
Depreciation and Amortization Expense	4,957	2,570	-	-	50	62
Operating Grants	-	-	-	-	131	-
Operating Income (Loss)	315,828	37,168	66	(7,856)	61	(25)
Net Nonoperating Revenues (Expenses)	10,213	120	2,881	632	34	-
Operating Transfers:						
Out	(331,314)	(37,539)	(1,948)	-	(2)	(7)
Net Income (Loss)	(5,273)	(251)	999	(7,224)	93	(32)
Current Assets	115,652	26,057	54,784	17,764	4,817	2,686
Property, Plant, and Equipment Additions	(4,873)	(5,229)	-	-	-	-
Total Assets	645,618	44,547	54,784	17,764	5,481	3,004
Current Liabilities	126,072	38,998	14,751	8,931	472	1,246
Bonds and Other Long-Term Liabilities	520,305	6,627	-	-	182	106
Total Equity	(759)	(1,078)	40,033	8,833	4,827	1,652
Net Working Capital	(10,420)	(12,941)	40,033	8,833	4,345	1,440

Selected Segment Information - Enterprise Funds

For the Fiscal Year Ended June 30, 1999

(Continued)

(Dollars in Thousands)

	Higher Education Tuition Trust	Department of Environmental Quality	Pocahontas Parkway	Other	Total Enterprise Funds
Operating Revenues	\$ 16,338	\$ 9,235	\$ 18,013	\$ 3,228	\$ 1,349,598
Depreciation and Amortization Expense	10	-	306	11	7,966
Operating Grants	-	-	-	-	131
Operating Income (Loss)	13,013	1,096	(3,259)	(12)	356,080
Net Nonoperating Revenues (Expenses)	3	625	-	161	14,669
Operating Transfers:					
Out	(1)	-	-	-	(370,811)
Net Income (Loss)	13,015	1,721	(3,259)	149	(62)
Current Assets	42,386	9,917	9,909	2,734	286,706
Property, Plant, and Equipment Additions	(6)	-	(77,203)	(1)	(87,312)
Total Assets	254,522	9,917	404,276	3,611	1,443,524
Current Liabilities	15,184	1,735	25,829	323	233,541
Bonds and Other Long-Term Liabilities	214,956	551	381,706	69	1,124,502
Total Equity	24,382	7,631	(3,259)	3,219	85,481
Net Working Capital	27,202	8,182	(15,920)	2,411	53,165

Condensed Financial Information - Component Units

Proprietary Funds

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	Virginia Housing Development Authority	Virginia Port Authority	Virginia Resources Authority	Virginia Public School Authority
Operating Revenues	\$ 579,194	\$ 127,663	\$ 110,816	\$ 101,783
Depreciation Expense	2,928	4,586	36	-
Amortization Expense	856	-	-	-
Operating Grants	125,356	-	71,485	1,253
Operating Expenses	495,645	128,393	94,016	94,544
Operating Income (Loss)	83,549	(730)	16,800	7,239
Net Nonoperating Revenues (Expenses)	-	-	638	(5)
Total Transfers	-	4,419	12,647	(8,517)
Net Income (Loss)	83,549	3,689	30,085	(1,283)
Current Capital Contributions	-	-	39,016	-
Current Assets	895,277	50,890	133,138	106,236
Property, Plant and Equipment (net)	18,511	16,745	109	-
Total Assets	7,283,275	69,000	891,361	2,147,552
Current Liabilities	394,381	12,251	4,393	194,559
Long-Term Liabilities	5,870,094	5,187	326,641	1,932,166
Total Liabilities	6,264,475	17,438	331,034	2,126,725
Total Equity	1,018,800	51,562	560,327	20,827
Net Working Capital	500,896	38,639	128,745	(88,323)

Condensed Financial Information - Component Units

Proprietary Funds

For the Fiscal Year Ended June 30, 1999

(Continued)

(Dollars in Thousands)

	Hampton Roads Sanitation District Commission	Virginia Biotechnology Research Park Authority	Medical College of Virginia Hospitals Authority	Small Business Financing Authority
Operating Revenues	\$ 86,465	\$ 2,814	\$ 462,543	\$ 657
Depreciation Expense	27,402	732	13,515	-
Amortization Expense	-	103	6,295	-
Operating Grants	-	-	-	-
Operating Expenses	89,239	2,140	467,694	624
Operating Income (Loss)	(2,774)	674	(5,151)	33
Net Nonoperating Revenues (Expenses)	1,223	(2,458)	12,869	(485)
Total Transfers	-	-	(1,295)	1,292
Net Income (Loss)	(1,551)	(1,784)	6,423	840
Current Capital Contributions	-	-	5,846	-
Current Assets	48,786	3,653	162,564	25,306
Property, Plant and Equipment (net)	424,512	22,650	154,000	-
Total Assets	531,861	77,614	492,111	32,190
Current Liabilities	21,777	1,851	52,245	2,004
Long-Term Liabilities	172,289	63,449	99,352	-
Total Liabilities	194,066	65,300	151,597	2,004
Total Equity	337,795	12,314	340,514	30,186
Net Working Capital	27,009	1,802	110,319	23,302

Condensed Financial Information - Component Units

Proprietary Funds

For the Fiscal Year Ended June 30, 1999

(Continued)

(Dollars in Thousands)

	Wireless E-911 Service Board	Other	Total Component Units
Operating Revenues	\$ 12,179	\$ 4,839	\$ 1,488,953
Depreciation Expense	-	376	49,575
Amortization Expense	-	46	7,300
Operating Grants	-	-	198,094
Operating Expenses	1	5,114	1,377,410
Operating Income (Loss)	12,178	(275)	111,543
Net Nonoperating Revenues (Expenses)	134	1,186	13,102
Total Transfers	-	1,035	9,581
Net Income (Loss)	12,312	1,946	134,226
Current Capital Contributions	-	-	44,862
Current Assets	12,312	2,192	1,440,354
Property, Plant and Equipment (net)	-	10,359	646,886
Total Assets	12,312	13,188	11,550,464
Current Liabilities	-	1,164	684,625
Long-Term Liabilities	-	6,410	8,475,588
Total Liabilities	-	7,574	9,160,213
Total Equity	12,312	5,614	2,390,251
Net Working Capital	12,312	1,028	755,729

Selected Segment Information - Component Units

Higher Education

For the Fiscal Year Ended June 30, 1999

(Dollars in Thousands)

	College of William & Mary	University of Virginia	Virginia Polytechnic Institute and State University	Virginia Military Institute	Virginia State University
Total Assets	\$ 427,089	\$ 3,604,248	\$ 1,029,708	\$ 123,146	\$ 156,652
Total Liabilities	77,459	526,473	279,175	10,000	26,745
Total Fund Balance	349,630	3,077,775	750,533	113,146	129,907
Revenues and Other Additions	166,199	1,428,058	573,648	41,464	65,461
Expenditures and Other Deductions	213,258	1,302,159	787,480	49,533	83,421
Transfers Among Funds	63,450	158,511	232,330	14,907	25,732
Net Increase (Decrease) for the Year	16,391	284,410	18,498	6,838	7,772
Fund Balance, July 1	333,239	2,793,365	732,035	106,308	122,135
Fund Balance, June 30	349,630	3,077,775	750,533	113,146	129,907

Selected Segment Information - Component Units

Higher Education

For the Fiscal Year Ended June 30, 1999

(Continued)

(Dollars in Thousands)

	Norfolk State University	Mary Washington College	James Madison University	Radford University	Old Dominion University
Total Assets	\$ 145,348	\$ 129,221	\$ 385,684	\$ 158,338	\$ 359,616
Total Liabilities	40,522	26,907	112,366	23,955	73,013
Total Fund Balance	104,826	102,314	273,318	134,383	286,603
Revenues and Other Additions	85,183	46,939	175,726	67,092	184,133
Expenditures and Other Deductions	111,522	59,492	219,827	97,243	250,233
Transfers Among Funds	33,669	21,513	67,657	36,426	87,139
Net Increase (Decrease) for the Year	7,330	8,960	23,556	6,275	21,039
Fund Balance, July 1	97,496	93,354	249,762	128,108	265,564
Fund Balance, June 30	104,826	102,314	273,318	134,383	286,603

Selected Segment Information - Component Units

Higher Education

For the Fiscal Year Ended June 30, 1999

(Continued)

(Dollars in Thousands)

	Virginia Commonwealth University	George Mason University	Virginia Community College System	Nonmajor Component Units	Total Higher Education
Total Assets	\$ 702,318	\$ 477,402	\$ 600,862	\$ 345,126	\$ 8,644,758
Total Liabilities	197,344	164,293	107,650	278,665	1,944,567
Total Fund Balance	504,974	313,109	493,212	66,461	6,700,191
Revenues and Other Additions	472,673	253,122	285,815	84,586	3,930,099
Expenditures and Other Deductions	628,333	329,419	538,644	170,163	4,840,727
Transfers Among Funds	161,520	95,056	278,342	22,057	1,298,309
Net Increase (Decrease) for the Year	5,860	18,759	25,513	(63,520)	387,681
Fund Balance, July 1	499,114	294,350	467,699	129,981	6,312,510
Fund Balance, June 30	504,974	313,109	493,212	66,461	6,700,191

28. CONTRIBUTED CAPITAL

Primary Government

Contributed capital is created when a residual equity transfer is received by a proprietary fund, when a general fixed asset is “transferred” to a proprietary fund, or when a grant is received that is externally restricted to capital acquisition or construction.

Contributed capital of the Enterprise Funds totaled approximately \$3.9 million. The Department of Alcoholic Beverage Control's (ABC's) contributed capital of \$1.6 million represents the total withheld from ABC profits. Virginia Industries for the Blind (VIB) reported \$1.7 million in contributed property and equipment. The Consolidated Laboratory reported \$340,000 and Other Enterprise Funds reported real estate with a value of \$260,000, as well as \$25,000 to provide funding for start-up expenditures.

Contributed capital of the Internal Service Funds totaled approximately \$6.1 million. Correctional Enterprises' contributed capital of \$5.8 million represents \$1.6 million in General Fund appropriations and \$4.2 million in contributed property and equipment. Information Technology's contributed capital of \$251,000 consists of \$34,000 in contributed equipment and \$217,000 of net assets transferred from their Special Revenue Fund.

Component Units

Seven component units reported contributed capital. The Virginia Port Authority reported \$2.8 million in contributed property and equipment and \$5.3 million in cash to fund equipment acquisitions, undertake construction and perform other actions that the VPA has historically undertaken at the terminals.

The Virginia Resource Authority's contributed capital consists of \$66.6 million in transfers from the Commonwealth to fund the Virginia Water Facilities

Revolving Fund and \$368.8 million from the Environmental Protection Agency of the U.S. Government under the Capitalization Grants for State Revolving Funds Federal assistance program. The property and equipment in each fund is recorded at historical cost.

The Hampton Roads Sanitation District Commission reported contributed capital of \$223.8 million. This arises primarily from the United States Environmental Protection Agency and the Virginia Department of Environmental Quality construction grants, and is recognized as contributed capital when eligible expenditures have been made.

The Virginia Biotechnology Research Park Authority reported \$11.5 million in contributed capital. The Authority reported \$5.2 million in contributed capital to fund Phase I of the construction costs of the building to be utilized by the Authority. Virginia Commonwealth University contributed property worth \$3.8 million and \$2.5 million in cash was received from other sources.

The Medical College of Virginia Hospitals Authority reported \$311.8 million in contributed capital. The Authority reported \$306.0 million in contributed capital from the Virginia Commonwealth University and \$5.8 million in contributed property and buildings.

The Small Business Financing Authority reported \$1.0 million in contributed capital to provide backup for the Guaranteed Loan Program.

The Virginia Equine Center Foundation reported \$5.4 million in contributed capital from the Commonwealth and \$1.3 million from other sources. Contributions from the Commonwealth are restricted to use for construction. By legislation, the General Assembly expressed its intent that no present or future appropriations be expended for operational costs of the Center.

Schedule of Changes in Contributed Capital

(Dollars in Thousands)

	Contributed Capital July 1, 1998	Contributions	Retirements	Contributed Capital June 30, 1999
Primary Government:				
Enterprise Funds:				
ABC	\$ 1,600	\$ -	\$ -	\$ 1,600
VIB	1,740	-	-	1,740
Consolidated Laboratory	340	-	-	340
Historic Preservation Foundation	260	-	-	260
State Parks Foundation	25	-	-	25
Total Enterprise Funds	<u>3,965</u>	<u>-</u>	<u>-</u>	<u>3,965</u>
Internal Service Funds:				
Information Technology	93	158	-	251
Correctional Enterprises	5,834	-	-	5,834
Total Internal Service Funds	<u>5,927</u>	<u>158</u>	<u>-</u>	<u>6,085</u>
Total Primary Government	<u>9,892</u>	<u>158</u>	<u>-</u>	<u>10,050</u>
Component Units:				
VPA	8,103	-	-	8,103
VRA	396,417	39,016	-	435,433
Hampton Roads Sanitation District Commission	223,756	-	-	223,756
Virginia Biotechnology Research Park Authority	11,526	-	-	11,526
Medical College of Virginia Hospitals Authority	305,952	5,846	-	311,798
Small Business Financing Authority	1,000	-	-	1,000
Virginia Equine Center Foundation	6,748	-	-	6,748
Total Component Units	<u>953,502</u>	<u>44,862</u>	<u>-</u>	<u>998,364</u>
Total Contributed Capital	<u>\$ 963,394</u>	<u>\$ 45,020</u>	<u>\$ -</u>	<u>\$ 1,008,414</u>

29. RESTATEMENT OF BEGINNING FUND BALANCES

The restatements required to correct prior year errors resulted in the over or understatement of revenues and/or expenditures during the previous fiscal year.

The restatement required pursuant to GASB Statement No. 14, *The Financial Reporting Entity*, resulted because the primary government can now impose its will over the Virginia Outdoors Foundation. This entity had been a related party in previous years.

Restatement of Beginning Fund Balances

(Dollars in Thousands)

	General	Special Revenue	Capital Projects	Trust and Agency	Component Units Governmental Funds	Higher Education
Balance as of						
June 30, 1998	\$ 1,011,431	\$ 1,306,340	\$ 53,274	\$ 34,967,381	\$ 94,707	\$ 6,310,709
Correction of Prior Year						
Errors	5,295	25,292	(1,776)	-	-	1,801
GASB 14	-	-	-	(1,734)	1,744	-
Balance, June 30, 1998,						
As Restated	<u>\$ 1,016,726</u>	<u>\$ 1,331,632</u>	<u>\$ 51,498</u>	<u>\$ 34,965,647</u>	<u>\$ 96,451</u>	<u>\$ 6,312,510</u>

30. RETAINED EARNINGS/FUND BALANCE RESERVATIONS

Reserved fund balances are as follows:

Schedule of Retained Earnings/Fund Balance Reservations
June 30, 1999

(Dollars in Thousands)

Reserved/ Restricted for	Primary Government					Component Units		
	General Fund	Special Revenue Funds	Debt Service Fund	Internal Service	Trust and Agency Funds	Governmental Fund	Proprietary Fund	Higher Education Fund
Working Capital Advance Loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Literary Fund (constitutionally restricted for public schools)	-	433,340	-	-	-	-	-	-
Debt Service	-	-	9,927	-	-	8,834	913,120	-
Inventory	34,971	47,351	-	-	1,521	-	-	-
Employees' Pension Benefits	-	-	-	-	34,634,596	-	18,539	-
Employees' Postemployment Healthcare Benefits	-	-	-	-	65,005	-	-	-
Employees' Group Life Insurance Benefits	-	-	-	-	959,470	-	-	-
Local Government Investment Pool (LGIP)	-	-	-	-	1,359,861	-	-	-
State Non-Arbitrage Pool (SNAP)	-	-	-	-	960,579	-	-	-
SNAP Individual Investment Accounts	-	-	-	-	23,423	-	-	-
Commonwealth Health Research Board	-	-	-	-	27,623	-	-	-
Prepaid Items	-	4	-	-	-	-	-	20,107
Revenue Stabilization	555,607	-	-	-	-	-	-	-
VELA Loan Servicing Reserve Fund	-	-	-	-	545	-	-	-
Capital Acquisition	-	426	-	-	187	-	-	-
Reserve for Construction	-	-	-	-	-	53,220	49,187	-
Semiconductor Manufacturing Endowment	-	-	-	-	-	-	-	-
Reserved/Restricted Gifts, Grants, and Contracts	-	-	-	-	-	-	-	675,527
Loan Funds	-	-	-	-	-	-	-	92,254
Endowment	-	-	-	-	-	-	-	1,096,219
Health Insurance (Legislatively Restricted)	-	-	-	19,220	-	-	-	-
Total Reserved/Restricted Fund Balance	<u>\$ 590,578</u>	<u>\$ 481,121</u>	<u>\$ 9,927</u>	<u>\$ 19,220</u>	<u>\$ 38,032,810</u>	<u>\$ 62,054</u>	<u>\$ 980,846</u>	<u>\$ 1,884,107</u>

31. DEFICIT RETAINED EARNINGS – GAAP BASIS

The State Lottery Department ended the year with a deficit retained earnings of \$758,854. This was solely attributable to the net pension obligation resulting from GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. Since the Commonwealth is the employer, the Lottery does not report this liability in their individually published financial statements.

The Department of Alcoholic Beverage Control ended the year with a deficit retained earnings of \$2.7 million. This is attributable to a deficit in beginning Retained Earnings and a net loss for the fiscal year.

The Pocahontas Parkway Association ended the year with a deficit retained earnings balance of \$3.3 million. This is attributable to debt service and operating expenses exceeding revenues during the first year of construction.

The Risk Management, Internal Service Fund ended the year with a deficit retained earnings of \$104.8 million. The deficit was the result of estimated claims payable exceeding the available equity in the fund. Claims are paid on a pay-as-you-go basis. To the extent that claims exceed current resources, they will ultimately become a liability of the fund from which the claim originated.

The Virginia Equine Center Foundation (Component Unit – Other) ended the year with deficit retained earnings of \$3.0 million. The operation of the Center, along with the fund raising activities of the Foundation are intended to provide sufficient cash flows to be self-sustaining. The Foundation is dependent upon charitable giving. To date, these cash flows have been insufficient to fully support the Center.

32. CASH FLOWS – ADDITIONAL DETAILED INFORMATION

The following table (reported in thousands) summarizes specific cash flows as of June 30, 1999.

	Enterprise	Internal Service	Proprietary Component Units	Total
Cash Flows Resulting from:				
Other Operating Expenses:				
Payments for Loans	\$ -	\$ -	\$ (1,002,313)	\$ (1,002,313)
Payments to the Federal Government	-	-	-	-
Program Grant Disbursements	-	-	(131,360)	(131,360)
Payments for Contractual Services	(52,713)	(90,387)	(94,529)	(237,629)
Payments for Mortgage Servicing Expenses	-	-	(8,848)	(8,848)
Escrow Payments Paid	-	-	(62,225)	(62,225)
Other Operating Expenses	(6,795)	-	(17,834)	(24,629)
Total	<u>\$ (59,508)</u>	<u>\$ (90,387)</u>	<u>\$ (1,317,109)</u>	<u>\$ (1,467,004)</u>
Other Operating Revenues:				
Collections of Principal and Interest on Loans	\$ -	\$ -	\$ 1,250,389	\$ 1,250,389
Program Grant Receipts	-	-	140,710	140,710
Escrow Payments Received	-	-	79,172	79,172
Receipts for Loan Origination and Guarantee Fees	-	-	9,411	9,411
Proceeds from Sale of Loans Receivable	-	-	9,265	9,265
Default Collections	-	-	4	4
Contributions Received	63	-	635	698
Other Operating Revenue	19,815	1,349	63,850	85,014
Total	<u>\$ 19,878</u>	<u>\$ 1,349</u>	<u>\$ 1,553,436</u>	<u>\$ 1,574,663</u>
Payments for Prizes, Claims, and Loss Control				
Lottery Prizes	\$ (551,540)	\$ -	\$ -	\$ (551,540)
Claims and Loss Control	(72,499)	(464,834)	(15,849)	(553,182)
Total	<u>\$ (624,039)</u>	<u>\$ (464,834)</u>	<u>\$ (15,849)</u>	<u>\$ (1,104,722)</u>
Other Noncapital Financing Activities				
Advances/Contributions from the Commonwealth	\$ 14,598	\$ -	\$ -	\$ 14,598
Receipts from Taxes	83,052	-	-	83,052
Repayments of Advances from the Commonwealth	-	(500)	(1,100)	(1,600)
Capital Contributed by the Federal Government	-	-	40,476	40,476
Total	<u>\$ 97,650</u>	<u>\$ (500)</u>	<u>\$ 39,376</u>	<u>\$ 136,526</u>
Other Capital and Related Financing Activities				
Capital Contributed by the Federal Government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,489</u>	<u>\$ 1,489</u>

33. ON-BEHALF PAYMENTS - HIGHER EDUCATION (COMPONENT UNIT)

Higher Education recognized various foundation and association on-behalf payments for fringe benefits and salaries during fiscal year 1999 totaling \$2,228,889. This activity was recorded in Current Funds as Private Gifts, Grants and Contracts in the amount of \$2,128,889 and Auxiliary Enterprises Revenue in the amount of \$100,000, with a corresponding expenditure.

resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable Federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a Federal audit may become a liability of the Commonwealth.

Institutions of higher education (Component Units) and other State agencies are required to comply with various Federal regulations issued by the Office of Management and Budget, if such agencies are recipients of Federal grants, contracts, or other sponsored agreements. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. It is believed that the ultimate

34. CONTINGENCIES

A. Grants and Contracts

The Commonwealth has received Federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these

disallowance pertaining to these regulations, if any, will be immaterial to the overall financial condition of the Commonwealth.

The U. S. Department of Health and Human Services' (DHHS) Office of the Inspector General conducted a review and indicated that the Commonwealth's Statewide Indirect Cost Allocation Plan rates have allowed overrecoveries in the Internal Service Funds. The Commonwealth is vigorously contesting the Federal assertions. The Department of Accounts filed an appeal with the Departmental Appeals Board. In that appeal, the Commonwealth proposed an alternative methodology for determining overrecoveries. The U. S. DHHS has agreed to a review of this methodology but has not set a date. Therefore, any amount owed is not determinable at this time.

Virginia's combined overpayment and underpayment food stamp error rate for fiscal year 1998 was 11.13 percent. The national average combined error rate was 10.69 percent. States whose error rate exceeds the national average are subject to a penalty. Since Virginia's combined error rate exceeds the national average; the Commonwealth is subject to a cumulative potential liability of \$15.6 million. Virginia has chosen to settle this potential liability by investing in food stamp program improvement activities as allowed by the food stamp program. Payment of the \$15.6 million is contingent upon the level of payment accuracy the Commonwealth achieves during the period beginning October 1, 1997 through September 30, 2000.

B. Litigation

The Commonwealth is named as a party in legal proceedings and investigations that occur in the normal course of governmental operations, some involving substantial amounts. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the Commonwealth in respect to the various proceedings; however, it is believed that any ultimate liability resulting from these suits or investigations will not have a material, adverse effect on the financial condition of the Commonwealth.

35. SUBSEQUENT EVENTS

Primary Government

In October 1999, the Commonwealth issued \$45,414,000 in General Obligation Bonds, Series 1999 to fund capital projects for educational facilities, mental health facilities, park and recreational facilities of the Commonwealth, and various institutions of higher education.

In October 1999, the Virginia Public Building Authority issued \$27,730,000 in Public Facilities Revenue Bonds, Series 1999B to prepay certain local jail reimbursement obligations of the Commonwealth.

The Virginia Department of Transportation has applied for a \$200,000,000 Treasury loan to address potential short-term cash needs. The loan application is currently pending with the Department of Accounts.

In December 1999, the Commonwealth Transportation Board issued \$238,265,000 in Transportation Revenue Bonds, consisting of \$33,320,000 in Series 1999A and \$204,945,000 in Series 1999B bonds for the Northern Virginia Transportation District and the Route 58 Corridor Development Program, respectively. Net proceeds will be used to finance a portion of project construction costs.

Component Units

Subsequent to year-end, the Virginia Resources Authority entered into a seven-year four-month lease agreement for office premises. The base rent payments total \$621,746 over the term of the lease.

Subsequent to year end, the Authority closed a \$5,660,000, 4 percent interest loan with Roanoke County; a \$651,942, 4 percent interest loan with the Town of Abingdon; a \$967,798, 3 percent interest loan with the County of Surry; a \$10,000,000, 4 percent interest loan with Alexandria Sanitation Authority; and a \$5,300,000 noninterest-bearing loan with the City of Lynchburg.

Subsequent to year end, the Authority closed a \$416,000, 2.5 percent interest loan and a \$450,120 noninterest-bearing loan with the Tazewell County Public Service Authority, and a \$1,333,975, 3 percent interest loan with Washington County Service Authority.

In addition to scheduled redemptions in July 1999, the Virginia Housing Development Authority (VHDA) made optional redemptions totaling \$104,275,000 of Federal Home Loan Bank Notes. In July and September 1999, the Authority made special redemptions totaling \$138,645,000 and \$18,755,000, respectively, of Commonwealth Mortgage Bonds. In August 1999, the Authority sold \$56,515,000 Rental Housing Bonds, 1999 Series G/H.

In October 1999, the Virginia College Building Authority issued \$71,200,000 in Educational Facilities Revenue Bonds (Public Higher Education Financing Program), Series 1999A to finance capital projects at various higher education institutions.

In November 1999, the Virginia Public School Authority issued \$91,770,000 in School Financing Bonds (1997 Resolution), Series 1999B to purchase local school bonds to finance capital projects for public schools.

36. TOBACCO SETTLEMENT

On November 23, 1998, 46 states' Attorneys General and the major tobacco companies signed a proposed settlement that reimburses states for smoking-related medical expenses paid through Medicaid and other health care programs. Virginia could receive approximately \$4.1 billion over the next 25 years. The settlement was approved in a Consent Decree in December 1998. On March 29, 1999 the General Assembly

enacted a law approving the establishment of a Commission, in compliance with the Consent Decree, to help communities in Virginia hurt by the decline of tobacco. Additionally, the General Assembly created two special non-reverting funds. The Tobacco Settlement monies will be deposited to these funds and the General Fund. Fifty percent of the Settlement monies will be deposited into the Tobacco Indemnification and Community Revitalization Fund. Ten percent of the Settlement monies will be deposited into the Virginia Tobacco Settlement Fund. The remaining 40 percent will be deposited to the General Fund.

The General Assembly also created The Virginia Tobacco Settlement Foundation (Foundation). The purpose of the Foundation is to determine the appropriate recipients of monies in the Virginia Tobacco Settlement Fund. The Foundation will also be respon-

sible for distributing monies for the purposes provided in the legislation. Disbursements can be made to assist in financing efforts to restrict the use of tobacco products by minors, through educational and awareness programs describing the health effects of tobacco use on minors, and laws restricting the distribution of tobacco products to minors.